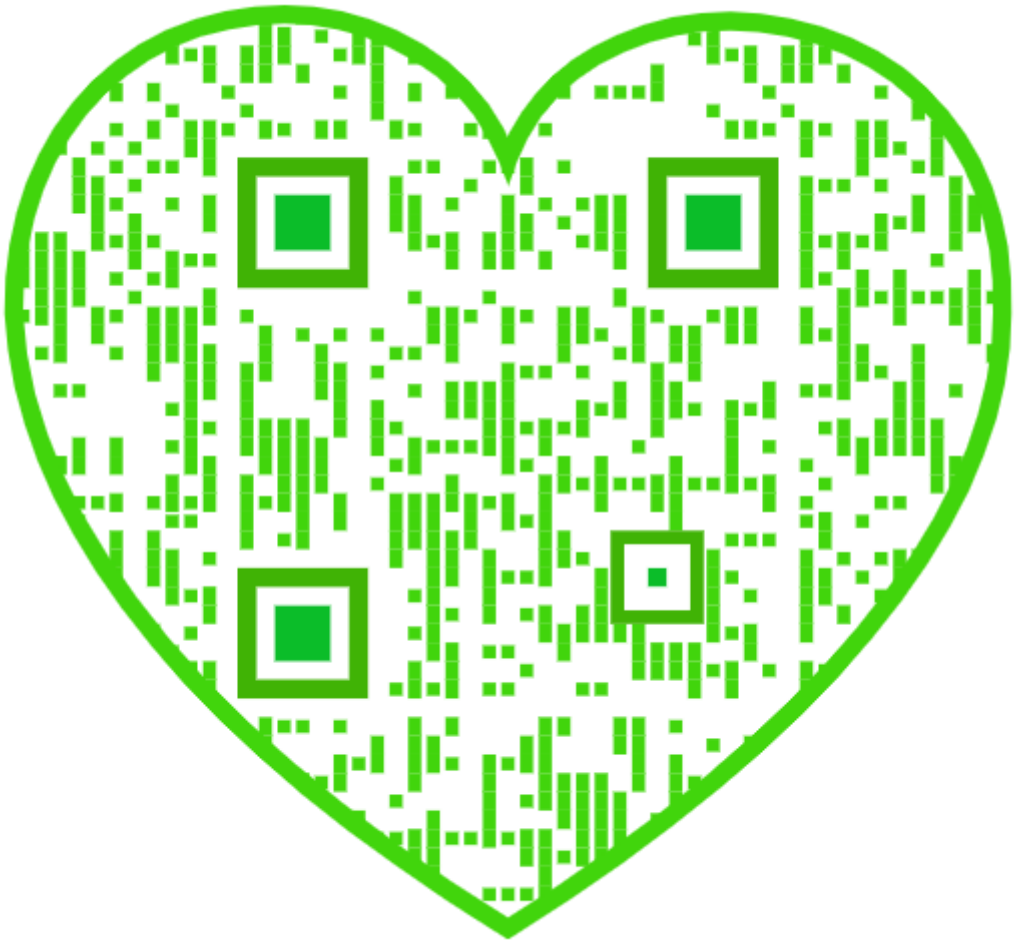

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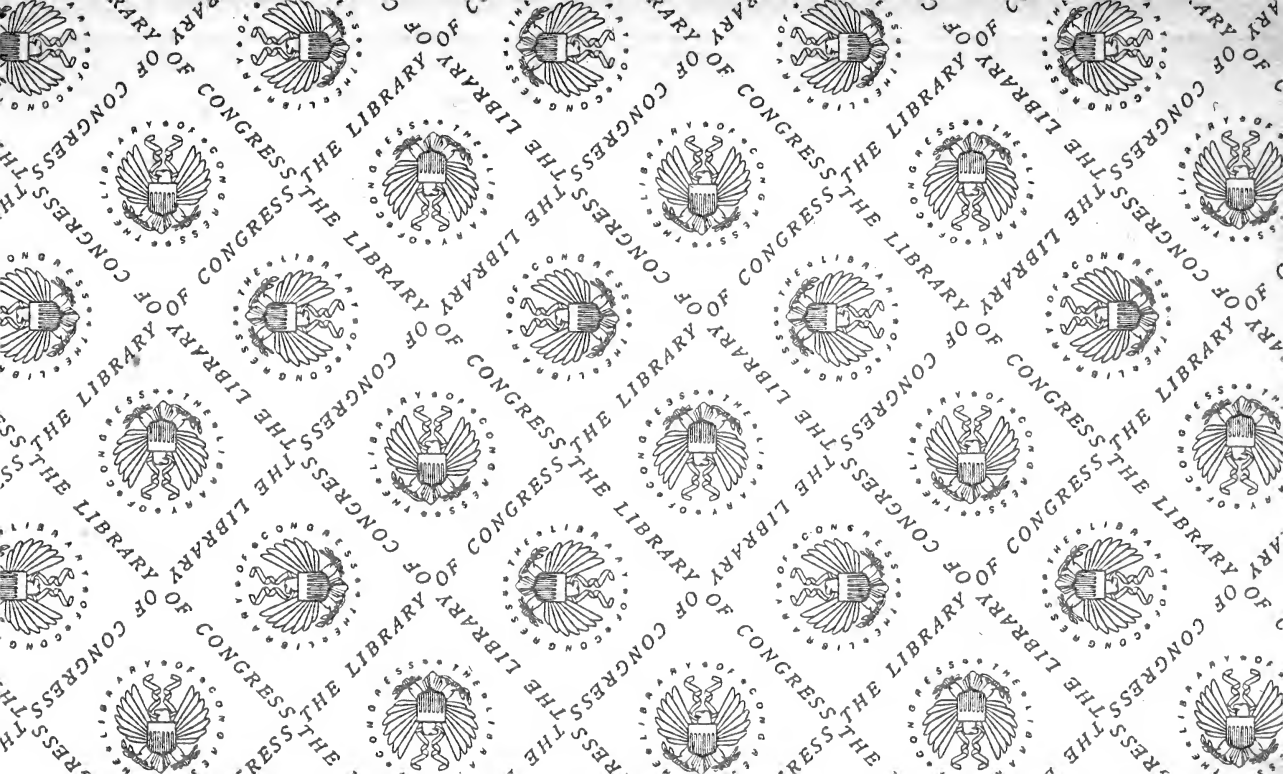
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ELEMENTARY ECONOMICS

AN INTRODUCTION TO THE STUDY OF ECONOMICS AND SOCIOLOGY

BY

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ELEMENTARY ECONOMICS

ELEMENTARY ECONOMICS

INTRODUCTION

The Changing World in Which We Live. The world in which we live is an ever changing, restless world; it is not static or at a standstill. Institutions, laws and ways of getting a living are different to-day from those prevailing when George Washington was President; and before the year 2000 is ushered in many further changes will occur. There is progress, or at least change, as the years go by in government, in moral ideals and in methods employed in industry. "Constant change is the law of life, in institutions as well as in animals."

It is very difficult for us who live in the present age of variety, of luxury and of power over nature, to picture the long, hard journey through which mankind has passed in order to reach the present stage of civilization. The primitive man was but little above the animal; he lived in caves and hunted and fought as an animal. In the early ages of semi-civilization, men cooked with hot stones placed in wooden vessels. These vessels were coated with clay to prevent burning. Finally, clay vessels were used, and pottery came into being. Sugar was unknown to the Romans, and Washington's residence was without stoves. "The people in the main part of the world never had any potatoes, corn, tomatoes, peanuts, nor turkeys until after America was discovered." The writer's father never saw or heard

of many things with which we, only a little more than a generation later, are familiar, — the automobile, wireless telegraphy, the submarine, the fireless cooker, or a building made of concrete. We of to-day live in a new, wonderful, and constantly shifting world, — a superb moving picture.

A half century has greatly modified the food supply of the people. The monotonous, badly cooked diet of a few decades ago has been replaced in many homes by a well-balanced variety. "Cheap transportation has brought the products of the tropics to our doors, and refrigeration and canning have annihilated time as far as the food supply is now concerned." The importance of this change in conserving the health of the indoor worker can scarcely be overemphasized. The lighting, heating, and sanitation of dwelling places and workshops have been revolutionized since the day Fort Sumter was fired upon.

Business Activity. Human beings are creatures of wants or desires; and the wants of the modern man and woman are a multitude compared with those of the primitive man or even of the pioneer. These varied wants or desires of the men and women of to-day are satisfied through all sorts of activity, but chiefly as the result of the activity called work or business. In order to satisfy wants and to obtain desired articles and services, men combine and coöperate and struggle and compete with one another in the business and the social world Likewise, groups of individuals and nations do the same thing.

Robinson Crusoe did not have a complicated method of satisfying his wants; and the pioneer of America also supplied his wants in a very simple fashion. But to-day in modern complex society, the wants and desires of the average person are many, and the satisfaction of those wants involves

many intricate problems. Many coöperating individuals, not one or a small group, are concerned. Economics is, therefore, a social science. In the social sciences — economics, sociology and political science — the changes in institutions, laws, and ways of getting a living, and their effects upon men in their relations to other men, are studied. In economics, the wants and the satisfaction of the wants of men and women are investigated. Two of the fundamental questions in economics are: why are certain commodities or services wanted? and how are these wants satisfied?

It is the intricate mechanism used to supply the wants of men and women, you and me and all of us, the complex mechanism of business, that we are to study. How did the machinery of the business world come into being? Why is it utilized? What keeps it going? These are some of the underlying problems in economics. Wherever an opportunity presents itself to provide an income by supplying the wants of people, a worker, — a business man — appears to do the necessary service — for compensation, of course, which in turn enables him to buy the products of others. We are also able to enjoy many things in common. Nearly everybody uses the railway. The city waterworks and electric lighting plants are for collective use. Playgrounds, schools, and streets are utilized by many individuals, and as a rule are owned by the community.

What Is Economics? In economics are studied the methods by means of which men get a living or obtain the necessities, comforts and luxuries of life. Economics is a study of the interrelationship of men and women in the business world or in the process of earning a living or of satisfying their wants and desires. Economics is not a science in which the problems discussed can be proved mathe-

matically; and it fairly bristles with controverted points. In the study of the social sciences, the student must always try to look on both sides of a question. He should endeavor to draw his conclusions independently instead of accepting blindly and without question the statements of the textbook or of the teacher. Mere memorizing is of little importance.

In many other subjects — language, ancient history, chemistry, mathematics — the student begins the study of the subject with few or no preconceived notions. All is new, and the material does not touch everyday affairs. In economics, the familiar matters of industrial and social life are considered. We all have our preconceptions and our class or interest bias. Although a person without training in engineering would hesitate to offer solutions for difficult engineering problems, and persons without legal training rarely attempt to solve legal difficulties, nearly everybody feels competent to discuss economic problems and to offer definite solutions. The student in economics ought to be cautioned against prejudice and against conclusions based upon inadequate analysis. Economics is an interesting and practical subject, and it is concerned with matters which touch everyday life, — questions of prices and markets, taxation, banking, tariff, wages, rent, transportation, and ownership of property.

TOPICS FOR DISCUSSION

1. Contrast the life of the primitive man with that of your neighbor.
2. Name six recent important inventions.
3. Do you know of any recent changes in the diet of the American people?
4. What different kinds of business are followed by the men and women of your town or city?
5. Why is economics a social science?

PART I

OUTLINE OF INDUSTRIAL AND SOCIAL EVOLUTION

CHAPTER I

GETTING A LIVING UNDER VARIOUS CONDITIONS

Industrial Stages. The characteristics of individuals and of groups of persons are in no small measure the resultant of the occupation they follow, of the manner in which they get a living. The roving, hunting, and fighting tribesman of the primitive world is very different from the land-owning, land-cultivating, stay-at-home farmer of to-day. The hardy and resourceful pioneer who pushed into the American wilderness a few decades ago possessed traits of character which are not fostered through contact with the routine of a big manufacturing plant. Each one of us is in no small measure the product of the training he has received and the environment in which he has lived. The occupation of the adult has stamped him with certain traits and peculiarities which are not easily erased or canceled. The different eras or stages in industrial life, or in the predominant methods of getting a living for the members of the human race, may be classified in five broad divisions: hunting and fishing, pastoral activities, agriculture, small-tool work, and machine or factory employment. The fundamental basis for this arrangement of stages in industrial life is the growing power of men over natural forces and resources. These stages also mark differences in the characteristics, habits, and ideals of men and women; the methods by means of which people associate with one another are also very different in the various stages.

The Hunting and Fishing Stage. The most crude and primitive form of getting a living was through the gathering of berries and nuts, and by hunting and fishing. The primitive hunting and fishing tribes made no effort to keep up the supply of nuts, berries, game, or fish. The savage took what the field, forest, and stream offered. In times of plenty he gorged himself; in times of scarcity he starved. Agriculture, mining, and manufacture — business — were things of the future. The density of population was very low, and large areas were necessary to support the hunter and the nut gatherer. The man of the hunting and fishing stage was a rover because it was necessary to find a food supply. The primitive man could not make the food supply come to him. Consequently, the savage had no fixed habitation; he was constantly searching for a food supply.

Any encroachment upon the hunting grounds by another tribe meant reduction of food supply. It signified more mouths to feed from the same source of supply; it spelled scarcity. Since the savage could not increase the food supply, the only hope of avoiding starvation lay in driving out or exterminating the intruder, or in finding new hunting grounds. The latter alternative would probably lead to struggle with still another tribe. The savage hunter became of necessity a ruthless enemy of all intruders. All strangers were enemies; they were a menace to the food supply and, hence, to the welfare and even to the life of all members of his tribe. Food — the basic necessity of mankind — was scarce. Other tribes, other hunters and fishers, coming into touch with a primitive tribe or group, meant scarcity and privation. The struggle for existence was bitter, constant, never-ending. To the strong and the crafty, to the tribe which stood together as a unit, went the

victory. The meek, the sympathetic, and the weak were pushed to the wall in the strenuous primitive world of our ages-distant ancestors.

Sympathy and charity for members of other tribes were inimical to the welfare of fellow tribesmen. Cruelty and ruthlessness were necessary to tribal survival and success. Yet, within the tribe teamwork was essential. The members of a tribe hunting large and dangerous game or fighting other savages must band together and hunt and fight together, or suffer destruction. Even in the hunting stage primitive man began to learn that he must unite with others in order to supply his wants and keep out of danger. The savage as well as the civilized man coöperated and combined with others; but the primitive coöperating group was small and unstable. War in the hunting stage of human existence was a struggle for hunting grounds The strong tribes, the tribes that were strongly knit together, obtained the good food supply, and waxed stronger.

Slavery was not found in the hunting and fishing stage, except possibly within the family. Defeated enemies were slain; captives were not taken. A slave would have meant one additional person to feed; to force the slave to hunt for the benefit of his captors was dangerous because weapons must be given him. With weapons in his hand, the slave might turn upon his master; or, while hunting, the former might easily escape. The captives of a hunting tribe were therefore killed; and sometimes they were eaten, thus adding to the food supply.

Because of the scarcity of food and the severity of the struggle for existence, the population of a given land area, in the hunting stage, was very small. The hunting tribe was composed of a small number of persons; the govern-

ment of the group was weak and not well organized. The physically strong men and the old men who were shrewd and wise in council dominated. The primitive man faced a multitude of dangers, seen and unseen; fear of impending danger was ever present. He who was supposed to possess the power to propitiate the unseen forces was looked up to. Religious and other ceremonial forms were emphasized by most primitive peoples. The uncertainty of life and of the fortunes of the chase or the battle are responsible for the firm belief of the savage in luck and magic, a traditional concept which modern people have not entirely outgrown.

The Pastoral Stage. The domestication of animals enabled the primitive man to obtain a food supply in a better and somewhat more certain fashion than that employed by the nut gatherer, the hunter, or the fisherman. The pastoral or shepherd people were able to increase the supply of the means of subsistence. Flocks and herds of domesticated animals or of semi-domesticated animals afforded a fairly stable supply of milk and of meat. Like the hunter, the pastoral people were rovers. They moved as their flocks required new pasturage. The steppe country of Asia is probably the original home of the pastoral people. Private property in flocks and herds began to develop, but not private ownership of land. Little personal property was obtained because little could be carried on the constant journeys from place to place. In this stage of human development are found the beginnings of a contrast between rich and poor. The Jews of the time portrayed in the Book of Genesis were in the pastoral stage, as were also the Britons at the time of Cæsar's invasion.

The Agricultural Stage. The crude beginning of the cultivation of the soil marks a revolutionary change in the

mode of living and of associating. The first signs that foretell the rise of modern civilization are found in the discovery of the use of fire and of agricultural implements. As increased density of population was now possible, the soil could be made to provide a greatly increased food supply. Perhaps a thousand times as many people could be supported on a given area under primitive hoe culture as could find subsistence by hunting; and many more can be sustained on an acre under better and more modern agricultural methods.

Slavery now replaced the killing of captives and cannibalism. Instead of killing and eating their enemies, the conquerors put the captives to work. Slavery also gave mankind a much-needed drill and discipline in hard routine labor. The transformation of the primitive, restless hunter, without an inkling of the meaning of regularity and persistency, into the modern business man and routine wage worker has indeed been a long and difficult process.

With the development of primitive agriculture came fixed habitations. The roving tribe was gradually changed into a group which recognized one spot as home to which the men returned from time to time. The men of the tribe continued to be hunters and warriors; but the women and the slaves became agricultural workers. The idea of private property in land began to appear. Each family wished to reap the fruits of its toil; and this meant more or less exclusive control of certain plots of cultivated or cultivatable land. Since the members of the tribe were more permanently located, better living quarters were presently demanded. The rude hut or house was soon built. Tilling the soil, planting the seed, waiting for the harvest, and saving the necessary seed, all required a gradual

growth of foresight unknown to the shortsighted and shiftless hunter. The foundation stones of modern civilization were laid in the early agricultural stage.

The Small-tool Age. The next step in the evolution of human society is the small-tool or handicraft stage. Towns and town life are found in this era. America was discovered in this period in the history of western Europe. The American pioneer and frontiersman was a handicraftsman using small tools. Manufacturing was always carried on in pioneer days on a small scale, and often in connection with farming. Craftsmen as a rule worked for themselves and used their own tools. They owned the raw material which they used, and sold the finished product. Some countries, for example, China and India, have not as yet reached the factory stage and are still in the small-tool era. Certain industries are also in that stage, for example, the arts and crafts industry, cooking in private homes, and peasant farming.

The Factory Era. The use of steam power and of machinery made possible the factory. The opening of the factory era marked a revolutionary change in living and working conditions. It is often called the industrial revolution. England was the first nation to pass into the factory era. In the United States, it began about a century ago; in England, nearly a century and a half ago. With the factory, machinery, and the use of steam power, came the rapid growth of cities. The workingmen were forced to live near the factories. In the factory, the raw material, the machines and tools, and the finished product belonged to the employer or capitalist. The workers received compensation in the form of wages. Many kinds of work that had hitherto been performed in the homes were now done

in factories. Both the working and the home environment change greatly as a country passes into the factory era. Both the business unit and the governmental unit grow as better facilities for transportation enlarge the market area.

The agricultural stage represents the high-water mark of slavery. As towns developed and trade grew, slavery was softened into serfdom and indentured service, and finally into the wage system with which we are now familiar. The slave system has never been able to obtain a firm foothold where either the small-tool system or the factory has held sway. Neither did slavery prove efficient on the small farm which produced a variety of crops, such as has been characteristic for years of the northern portion of the United States.

Nearly all the important political, social, and economic problems of to-day grow out of the development of factories and great cities. Economics and sociology are fruits of the complex machine period. The nineteenth century made the world a great neighborhood. We of to-day are living in an era of interdependence; all preceding eras or stages in human evolution have been predominantly characterized by self-sufficiency. This fact may be brought out clearly and concretely by considering briefly the industrial evolution which has been going on in our own country. Within a comparatively brief period of time the territory now known as the United States has passed from the hunting and fishing stage to the factory era. Indeed, until the western frontier line faded and frontier life ended a short time ago, within the boundaries of the United States could be found all the different stages of industrial development. Within a generation, the United States has passed from

a position of international isolation to one of world leadership.

These five stages present with considerable historical accuracy the course of events in the evolution of human industry; but such a consideration alone omits reference to the very significant changes in the attitude of workers seeking a living towards the methods of prosecuting such endeavor. The primitive man, like the animals, was guided chiefly by instinct, by guesswork, by luck, by a belief in the operation of magic, and by a reliance upon sacrificial ceremonies. Only in recent years, after the factory age has been reached, do reasoning and scientific planning in industry displace instinct, luck, guesswork, and reliance upon magic. Business, the use of markets, and division of labor reach back into the small-tool and even into the agricultural stage; but business does not attain a high state of development until the factory period is entered. Even war, which is a survival coming down from the hunting and fishing stage, is now to a large degree a matter of technology. Factories are as essential as fortifications and firing lines.

The primitive man would not hunt or go to war unless the signs and omens were auspicious, or until he had sacrificed to the gods. The early agriculturist would only plant at certain times and according to certain definite ceremonial forms. There are to-day American farmers who insist that certain crops should be planted "at the right time of the moon." The great majority of the men and women of to-day are influenced by certain hard and unyielding prejudices and inherited concepts coming down from the early ages of human existence. Reason and science continually meet as obstacles prejudice and superstition; but gradually the former are gaining upon the latter.

TOPICS FOR DISCUSSION

1. Why did the members of hunting tribes often "go hungry"?
2. Why was it necessary for primitive men to band together into groups and tribes?
3. Why did the beginnings of agriculture cause important social changes?
4. Do you know of any industries now in the small-tool stage?
5. Are you acquainted with any person who believes in "signs"?

CHAPTER II

INDUSTRIAL PROGRESS IN THE UNITED STATES

Colonial and Pioneer America. During the colonial and revolutionary periods in American history and for some years after, industry in this country was in the small-tool stage. Manufacturing was carried on in the home and in the small shop. The typical American of a century ago, as in the earlier periods of our history, was the hardy, self-reliant pioneer farmer who lived his life in isolation from his fellow men. Each family produced for itself nearly all that it consumed. Exchange of products with others was inconsiderable. Meat, butter, grain, and horses were often exchanged for sugar, salt, spices, and certain manufactured products, such as farming implements and tools. The farmer was a jack-of-all-trades. He was not only a farmer but also a blacksmith, carpenter, butcher, carrier of products, hunter, and primitive policeman. The pioneer performed numerous tasks each and every day; and the particular kind of tasks to be performed varied with the weather and the season and the year. The hours of daily toil were long, usually from sunrise to sunset; and the chief sources of power were three: men, horses, and oxen. The farmers and other workers of a century or more ago knew little or nothing of the minute division of labor and the routine work with which we of to-day are so familiar. The typical American of early times was in a large degree independent of the outside world. He knew very little about the people and the living conditions beyond the boundaries of the

township or the county or possibly the state in which he lived. When men did associate or work together, it was of necessity only in small groups. There were no large cities and no huge smoking factories; and the means of transportation and of communication were still very primitive and extremely slow and uncertain. Before the Revolutionary War, it took a week to go from Boston to New York City — a distance of 230 miles by stagecoach. In the first years of the nineteenth century, five and one-half days were required to journey from Philadelphia to Pittsburgh, — a distance of 310 miles. The work of the average American of a century ago tended to bring him into contact with many kinds of simple productive activity, but his isolation from the outside world tended to give him a narrow and provincial view of life. However, the railway and the steamboat and the telegraph were soon to cause revolutionary changes.

The Nineteenth Century. The nineteenth century was an epoch of extraordinary industrial and business progress and of revolutionary changes in social and political conditions. The economic problems to be studied in Part III are practically all products of the nineteenth century. England led the way in the use of machinery and of steam power. The first factories were for the manufacture of cloth. By 1820, in the rapidly growing towns and cities of America, a great variety of craftsmen were working at their trades, and textile factories were becoming numerous. The old and simple industrial era was changing rapidly in the northeastern portion of the United States. At the end of the century there were more than a half million manufacturing plants in this country, employing over five million wage earners, and annually producing products valued at over thirteen thousand millions of dollars. The number of

workers employed in manufacturing alone in 1900 was nearly as great as the entire population of the nation in 1800.

The completion of the first great American canal, the Erie Canal, in 1825, which joined the Hudson River with the Great Lakes, reduced greatly the obstacles to trade and communication between the Atlantic seaboard and the great central portion of the nation. The pioneer American railway was the Baltimore and Ohio. Construction began in 1828; in 1830, thirteen miles of line were placed in operation. The first transcontinental railway route linking the Pacific coast to the Mississippi valley and the Atlantic states was opened in 1869. The railway network grew rapidly. In 1850, the railway mileage was 9000; in 1860, 30,600; in 1880, 93,000; in 1910, 240,000. Along with the evolution of the railway has come progress in manufacturing, mining, and merchandising.[1] A brief discussion of the growth of the business unit and of one particular industry will serve to illustrate the connection between transportation and other forms of industry, as well as to picture the course of events during the nineteenth century.

Growth of the Business Unit. The pioneer farmer of the Middle West, the New England manufacturer or the city storekeeper of the Revolutionary period, was not engaged in a large business. Only a few articles were produced for the market, and those articles were not carried far. Transportation facilities were poor, and the markets were small and local. Specialized workers and special machines were not employed, because it was not profitable; these could only be utilized for a short time each year. A machine to turn out spokes for wagon wheels could have

[1] For further statistics in regard to the industrial progress of the country, see any industrial history of the United States.

been used only for a few hours each year by the country blacksmith and wagon maker; he marketed only a few wagons each year. But the big factory of to-day uses a machine to turn spokes for wagon wheels; so many wagons are produced each year that this special machine is kept busy all the time. A big business must have extensive markets; it must be able to sell many of each variety of articles it manufactures. Specialized workers and special machines — subdivision of labor — can profitably be used only in large factories selling to extensive markets.

The Evolution of the Shoemaking Industry in the United States. The business of making shoes has passed through changes which are typical of other old and important industries. The first American shoemaker was an itinerant; he went from home to home carrying his tools with him. The customer for whom he worked furnished the leather and owned the boots or shoes produced. The shoemaker was paid for the work done in the home of his customer. No problems concerning the price of shoes arose under this crude and small-scale method of making shoes; there was as yet no merchant-function in the shoe business.

Gradually the itinerant shoemaker was replaced by the "settled shoemaker" who owned his little shop. He no longer went to his customers; they came to his shop. The shoemaker bought his raw material and worked it into boots and shoes made to the order of his customer. The shoemaker became a merchant as well as a shoemaker; he performed a double function. Price problems now appeared. Presently another step was taken. Whenever the shoemaker had spare time, he commenced to make shoes, without waiting for a specific order from a customer. Out of this habit the shoemaker developed the function of a retail shoe

merchant. The front of his shop was partitioned off for a shoe store, and the rear of the building continued to be the shop proper where the shoes were made. But the market was as yet only local and not extensive. The shoemaker, as his business grew, hired other workers and devoted much of his time to selling shoes.

The next stage in the evolution of the business began when the merchant-shoemaker decided to seek a wider market for his shoes. Samples were carried by traveling salesmen to more distant customers or to merchants in other, but near-by, towns. The business becomes in part wholesale; and the work of actually making the shoes passes almost entirely into the hands of journeyman shoemakers hired by the merchant. The shoemaker is now a wage-worker in the employ of the shoe merchant. The goods are transported over the highway or by water. With the development of the railway, the market area grows larger, and the distinction between the wholesale-employer and the retail shoe merchant grows more and more sharp. Shoes are still made by hand with the use of the old hand tools, but the merchant is no longer a journeyman shoemaker.

Finally, machinery is invented in the shoe industry, and the old shoemaker sitting at his bench is displaced by factory hands. Subdivision of labor becomes the order of the day. One worker no longer makes a whole shoe; each factory worker performs one small portion of the entire work of making a shoe. The trade of the journeyman shoemaker has been destroyed by the invention and use of shoe machinery. The manufacturer-employer now directs the business; he owns the factory, the raw material and the finished product, and he also hires the factory wageworker. The manufacturer sells the machine-made products to the whole-

sale merchant, and the latter in turn furnishes shoes to the retail shoe merchant. In recent years, some shoe manufacturers have been selling directly to the retail store, thus eliminating the wholesaler or jobber. The great shoe factory only became a practicable business proposition, however, after transportation and credit facilities were well developed. The factory signifies a national or a world market.

The Twentieth Century. In the opening years of the twentieth century, the scene has entirely changed. The pioneer and isolated farmer is now found only in a few out-of-the-way places; he is out-of-date and unusual. Approximately one half of the people of the United States are living under urban conditions. The typical farmer of to-day no longer does blacksmithing, carpentering, butchering, transporting, hunting, or police duty. He exchanges much that he produces on the farm for other products made elsewhere. The railway, the express, the telephone, good roads, the automobile, rural mail delivery, and a multitude of other modern instrumentalities, have destroyed the isolation so characteristic of earlier America; they have also transformed the economically independent American into the economically interdependent American. A big railway strike would bring hunger and privation to the doors of millions of homes. Even a street railway tie-up is sufficient to throw the business of a city into disorder. A coal strike involving a large number of miners would direct a heavy blow at the industries of the nation.

The Complexity of Modern Life. The intricacy of the industrial life of to-day becomes evident if we stop to consider the processes by which we ordinarily and regularly obtain almost any of the commodities which are offered in

the markets of our city or town. We find, for example, on the breakfast table in the morning an orange grown in California. This orange was grown on a fruit farm. The farm was owned by the farmer operating it; but he is protected in his right to private ownership by the strength of organized government. His deed to the land is recorded by a county official, and the owner cannot be arbitrarily dispossessed of his land. He expends money and effort upon the fruit farm because he knows that society, through its governmental machinery, is prepared to protect his property from the illegal acts of others.

The fruit grower cultivates the land and sets out the orange trees. He uses many tools and implements obtained from many different sources and involving the effort and ability of many different people. The oranges develop in due time and are picked and crated. The crates are transported to the railway depot by means of horses and wagons or automobile trucks. Again, it must be noted that many people — mechanics, woodworkers, miners, and others — were concerned in the production of the wagons or the automobile. The oranges are transported to your city or town. The railway employees are a host of workers, — engineers and other trainmen, switchmen, clerks, depot workers, section men, and many others. And, remember, the railway was constructed, the tracks laid, the rails fashioned, the locomotives and the cars built, the coal provided, and the signaling devices manufactured by still other workers, some of whom worked years ago. The rates charged by the railway are regulated by governmental officials. Railway securities are bought and sold on the stock exchange. Almost all kinds of industry are directly or indirectly connected with the railway business.

The crates of oranges are often consigned to a wholesale fruit merchant who sells them to the grocer or retail fruit merchant, and the latter in turn sells and delivers to your home the orange which is found on your breakfast table. The oranges are paid for by the use of money or of a check. Money necessitates a government mint or printing establishment; the check signifies a well-organized banking system. Both, the money and the check, and indeed the whole business mechanism, imply the reign of law and order; both indicate the existence of courts, police systems, and organized government.

Industry — business — to-day is a very complex piece of social machinery, carried on for the purpose of satisfying human wants. Each individual is directly or indirectly served by a multitude of individuals living and dead. And in turn each worker produces articles or services which may go to many different people in widely separated places. The oranges of the fruit grower finally reach many different people located in all the cities and states of the United States and perhaps also in foreign countries.

If the student will attempt to follow through a similar process in the case of a loaf of bread, a bottle of ink, a steel rail or a watch, the intricacy and interdependence of modern industry will again be clearly revealed. The bread upon the dining-room table, the plates, the table itself, the house in which you live and the school building in which you are studying, — all are the products of the work of hundreds and thousands of persons interested in earning a living for themselves and their families. But, in spite of the complexity of modern life, the motive forces which lead to activity in the case of the pioneer farmer or of the routine worker in the modern factory are in essence not greatly dissimilar.

Our participation in the Great War has taught even the most careless and unthinking person that the individual must be restrained in the interest of the group. Extravagance, waste, inefficiency, and idleness are of vital national import. The world has been brought face to face with the specter of a world famine. The easy optimism which declared that the steam engine and modern science made a famine impossible is now discredited. The old fundamental truth that everybody, rich or poor, should do some useful work has come into the foreground. War and a period of national stress make it clear that the idler is a parasite and a social nuisance.

TOPICS FOR DISCUSSION

1. Contrast the living conditions of the pioneer farmer with those with which you are familiar.
2. Trace the business activities involved in the delivery of milk each morning.
3. Which kind of work is preferable, — that of the shoemaker, working with hand tools, or of the machine tender in a modern shoe factory? Why?

PART II

FUNDAMENTAL ECONOMIC CONCEPTS

CHAPTER III

THE PRODUCTION OF COMMODITIES

Why Business Is Carried On. In the normal times of peace, the great majority of the men and women of the United States are workers, — in shops and factories, in stores, in offices, on railways and steamships, on the farms, in the homes, and in many other work-places. In the study of economics, we are interested in the work of the world or, in other words, in the business activity of the community or of the nation. Why is business carried on? Why do so many people work hard day after day, year in and year out? The great majority of people work to get a living or a living plus a variety of commodities and services which make life comfortable and enjoyable. Unfortunately, the typical worker does not enjoy his work. He is anxious for the whistle to blow at night; and he dislikes to hear it in the morning. One of the big unsolved industrial problems is that of substituting joy in work for the prevalent disinclination to produce.

Under present conditions in industry, men work in order to satisfy their wants or desires. This is the primary or fundamental reason for business activity. As has been indicated, these wants are many and varied. They range from the desire for bread and butter to sustain life to the desire for personal adornment; and from the desire for a simple plaything on the part of the child of poverty to the multi-millionaire's craving for the magnificent yacht. Men work — business is carried on — in order to supply these

multitudinous wants of the people of the nation and of the world. Business in your town or city or state is carried on for the purpose of producing commodities or services which people desire and will purchase. Barbers, photographers, lawyers, merchants, farmers, milkmen, and carpenters work — do business — because people pay them for doing so, because by working they are able to earn a living, because in this way they can obtain the purchasing power by means of which their desires may be satisfied.

Business means teamwork; each worker, manual or mental, skilled or unskilled, has his own particular job and his place and manner of doing work. Each worker, from the humble and most unskilled to the most capable and skillful, is doing a part of the great whole which may be termed the " world's work." In order that all these various workers may do the work fairly efficiently and effectively, in order that the goods and services that consumers want rather than those which are not desired, may be produced and distributed to the consumers, capable directors, who may be named enterprisers, are essential. It is the function of the enterpriser to ascertain and supply the wants of consumers. The enterpriser is a big or little captain of industry.

Business activity is directed by the capable enterpriser so as to produce the commodities and services which satisfy the wants — good, bad, or indifferent — of the purchasers or consumers. The desire for intoxicating liquors has built up a great business. The desire for candy and the desire for breakfast foods have likewise caused important businesses to thrive. Business men cater to the bad as well as to the beneficial demands of consumers. The urge for profits often drives men to do that which they know is

socially undesirable; but by so doing they make a living and, perhaps, more than a living. On the other hand, when the want or desire for a product disappears, the business of catering to that desire stops.

Exchange. At the present time nearly all workers are paid in money. With this money they purchase the commodities which they want, — food, clothing, shelter, amusements, and many other items. In primitive and even in more recent pioneer days, very little money was used. There was little buying and selling; and many of the exchanges were accomplished without the aid of money. The few things which the pioneer family did purchase from outside were nearly all paid for in grain or meat, or some other farm product. The pioneer came into possession of very little money.

But to-day the average laborer, the worker you know, is a specialized worker and he receives wages for his labor. Even the farmer sells nearly everything he produces for money, and with the money buys the many tools, the clothing, the wagons, and even much of the food that he and his family need. Some workers to-day are shoe factory employees; others are furniture makers, carpenters, railway trainmen, expressmen, milkmen, farmers, miners, actors, teachers, and so on through a long list of occupations. Practically all these classes of workers work for wages, fees or profits which are paid to them in money; and in turn they use the purchasing power which the money gives them to buy the sundry commodities and services which they want or desire. The shoe factory worker, for example, makes shoes or parts of shoes for people living in many different places, for persons he has never seen and probably never will see. In turn, a great multitude of workers of various

professions, trades, and occupations aid in making the goods and performing the services which the shoe factory worker purchases with his wages. Each wage earner and each professional man works for many people; and a vast army of workers toil for you and for your friends; that is, a host of people make the commodities and perform the services you and your friends purchase with the money which you and your friends obtain directly or indirectly as wages, or as income from property.

Business is a great coöperative affair. Farmers, lumbermen, factory workers, storekeepers, railway employees, lawyers, bankers, actors, teachers, — all are working to satisfy their mutual wants. Thousands of men and women in this and other countries have been working last year, yesterday, to-day, in order that you and other persons in your town may have to-day the necessities, comforts, and pleasures of life. And each worker has contributed his mite to the great mass of products and services which make up the income of the nation. "Each is working for all; all are working for each." It can readily be seen that the pioneer farmer toiled for each and every member of his family; it is also clear that the wife and mother did likewise. If the farmer were lazy and inefficient, the family income evidently would be small. The family would suffer because of the small output of the farm. It is as true, but not so easily comprehended, that idleness, inefficiency, and useless work reduce the sum total of the national income or dividend. National prosperity, comfort, and happiness require efficiency. From this point of view, the nation is the pioneer family written in larger letters.

Income can also be obtained by individuals in other ways than through business activity. The owner of land or of

capital may derive an income by allowing others to use his property. But such income can be paid to the inactive owner only because some one else does utilize the land or the capital in some kind of business activity. Payments are made to inactive owners only because the capital and land are important aids in production. The satisfaction of the wants or the desires of the inactive income receivers as well as of the active producers is a normal result of business activity. The original sources of both incomes are the same.

Classification of Industries. Industries may logically be arranged in five general classes: extractive, transforming, transporting, exchanging, and personal service. The extractive industries are those which obtain material out of which useful articles are made. These may be te med primary industries. The chief extractive industries are agriculture, mining, fishing, and lumbering. Manufacture of all kinds transforms the raw material furnished by the extractive industries. Material is made more useful and more valuable by changing its form. Manufacture, for example, changes crude iron ore such as comes from the mine into the hairspring of a watch or into a steel rail. The transporting industries convey goods, persons, and intelligence from one place or locality to another where the need is greater, and in this way aid in satisfying wants and desires. The chief means of transportation are the railway, automobile trucks or passenger cars, water and air vehicles, pipe lines to convey water, gas, and oil, telegraph and telephone wires, lines for the transmission of electrical energy, and the wireless telegraph and telephone.

The work of the exchanging industries is that of aiding other forms of industry in getting goods into the hands

of the consumer; the exchanging industries facilitate the change of ownership of commodities. The chief exchanging industries are wholesale and retail stores of all kinds, and banks. The personal servant performs services instead of aiding the flow of material commodities toward the consumer. Among those performing personal service may be mentioned barbers, physicians, teachers, preachers, lecturers, actors, and domestic servants.

Essentials of Big Business. The student should see clearly that good transportation facilities are essential to big business. Railways make it possible for a factory to sell its goods in distant places. Railways allow extensive markets to come into existence, which in turn lay the foundations upon which large business enterprises are built. The effect of improved transportation upon the market for wheat is well illustrated by a computation made before the opening of the Great War. The price of wheat in the market was assumed to be one dollar per bushel. By wagon over the ordinary highway, the expense of transportation for 300 miles was estimated to be equal to the price of wheat at the market. Over the modern railway, the expense of transporting wheat 7000 miles, or twenty-three times as many miles, was calculated to equal the market price. A farmer of to-day producing wheat has a much wider range of possible markets than did the farmer of the pre-railway period. Without excellent transportation facilities, our grain could not be grown in the West, our collars manufactured in Troy, New York, or our breakfast food prepared in Battle Creek, Michigan.

The inventions and improvements in transportation are not the only essential factors in developing large-scale business. The substitution of the power of coal and of falling

water through the use of steam and electricity for the muscular power of men and animals is necessary in order to make the wheels of the factory go around. In big business, turning, carrying, and lifting must be done by some other power than man-power. Labor-saving devices and natural — non-human — power are two prime essentials in modern large-scale industry. Modern industry and present-day civilization are, in a large degree, machine-made.

An article which can be profitably produced by large-scale methods must be one which many persons desire to purchase. No matter how excellent the transportation facilities may be, an article desired by only a few persons will be produced only by small-scale methods. Again, the demand for an article must be to a considerable degree standardized before large-scale manufacture becomes profitable. A tailor-made suit of clothes, made according to the measurements of one individual, is usually made in a small shop. Ready-made clothing and overalls are usually made in a factory. In the first case, each unit is made differently; in the second example, the product is standardized within a certain class or group. The familiar Ford automobile is an excellent example of standardization. The manufacturer has developed only one type of machine. Parts made in Detroit may be shipped to other cities and there assembled. Standardization and interchangeability of parts are characteristics of large-scale business.

Articles which cannot be standardized, such as tailor-made clothing, or commodities for which the demand is small, such as expensive jewelry, will continue to be made according to small-scale or handicraft methods. Portrait painting and the production of arts-and-crafts goods are small-scale businesses. Cooking and laundering are in

the process of being transferred from small-scale to large-scale industries. Agriculture is, with few exceptions, still in the small-scale stage.

TOPICS FOR DISCUSSION

1. Write a brief description of an ordinary day's work performed by some person you know.
2. Why was the day's work performed?
3. Were the results beneficial to others than the person doing the work?
4. Make a list of fifty different occupations.
5. Arrange these fifty occupations into five groups on the basis of similarity.

CHAPTER IV

WANTS AND VALUE

Why Do People Want Commodities? Since business is carried on in order to enable men and women to satisfy their wants, we must next consider human wants. Why do people want commodities and services? Do all have the same wants? Are wants always the same in different times and places? Certainly different people have quite different wants. No two persons have exactly the same wants or desires. Moreover, the demands of any one person vary from time to time and with change of habitation. As a person grows older certain desires which were strong in youth fade and give place to others. Again, our wants are somewhat different in summer from those of the winter season. It is this variety and constantly shifting character of wants which give rise to the multiplicity of business, and to the ever-changing nature of business.

To answer the question — Why do people want commodities and services? — is more complex and difficult. The satisfaction of certain wants is absolutely necessary. Food, clothing, and shelter are in some degree necessary in this climate. But only a small portion of the business activity of the United States or of any other civilized nation is directed toward producing the minimum necessities for the maintenance of life and vigor. We seek comforts and luxuries; we desire not only food, but food well cooked and daintily served. Clothes of a certain style, without much

regard for the practical matter of warmth, are demanded; and more are wanted than were considered necessary by the pioneer. Dress suits, party dresses, neckties, linen collars, jewelry, and so on, through a long and constantly changing list, are purchased. Houses with modern conveniences are in demand. Men and women of to-day want not only bread and butter but also "jam on the bread"; they wish not merely clothes but stylish clothes; they ask not only for shelter, but for a house which is as good as that belonging to their friend. Many wants are purely conventional. We want certain commodities because others have them, because it is the style, or because the ownership indicates that we have a large income. Business men cater to these wants and often stimulate them through judicious advertising.

Utility. The quality which makes goods or services desirable is designated utility, and is to be found in all commodities which men and women seek. Air, water, bread, a suit of clothes, tobacco, — all possess utility; these articles are serviceable, and are desired by men and women. Of course, individual tastes differ. Certain commodities may possess no utility in the estimation of one person and, on the other hand, be considered to possess utility by another. A canceled postage stamp may possess utility for the stamp collector; but for others it may be without utility.

Our wants for a given article change as we obtain and consume additional units of the commodity. To a hungry man the first slice of bread consumed gives great satisfaction. The second slice gives slightly less; and the third still less. If the man continues to consume slice after slice, presently his desire for bread will be satiated. He will crave no more for the present; and to continue consuming

bread would soon bring discomfort. This phenomenon of diminishing desire or of diminishing utility is also found in connection with commodities other than food. We want one house very much; but few of us have great desire for a second for our own use. The second hat has less utility, it satisfies a less intense desire than the first, and the third has much less utility for us than the second. As a consequence, when the supply of a given article is greatly increased, the tendency is to use it to satisfy less and less intense wants. Salt is quite plentiful. It is utilized not merely to satisfy the intense wants of human beings in cooking; but it is also used for many other less important purposes, — for example, in connection with the manufacture of ice cream. If salt were much less plentiful, it would not be used for the latter purpose. Sometimes an article possessing utility may become so plentiful that it is no longer serviceable. Water in a time of flood possesses disutility rather than utility.

Consumption gives greater satisfaction when a variety of goods are consumed than when the consumer is restricted to a small range of choice. A dinner of bread, butter, and potatoes will be less gratifying than one in which a greater range of choice is offered. The pioneer was obliged to be content with very little variety in his selection of consumable commodities; but industrial advance and improved transportation facilities make possible a greater variety. A wide range of choice tends to increase the well-being of the community. In order to obtain the greatest possible satisfaction from consumable goods, attention must also be given to the "law of harmony." In order to obtain pleasing results in art, architecture, or painting, harmonious colors and materials must be selected; the same holds true in

regard to the more common and prosaic matters, — such as, for example, in the selection of food and clothing.

Why Are Land and Capital Desired? It is clear that consumable goods such as food and clothing are wanted because of the satisfaction afforded by their consumption. But land and capital goods such as tools, machinery, factory buildings, are not consumed; no wants are directly satisfied by these commodities. Why then do men and women desire capital goods? Why do they purchase non-consumable commodities? Land and capital are instrumentalities which give assistance in producing commodities and services which people desire for purposes of consumption. We work and play upon land, — the earth's surface. Land is desirable when it is advantageously located for business, residential, or recreational purposes. Land is needed in all kinds of business, — agriculture, manufacturing, merchandising, railroading. The airship needs a considerable area of land for the beginning and the safe ending of a flight. Land is needed for playgrounds, athletic fields, parks and race tracks. Land is valuable because it does not exist in unlimited quantities and because it must be had to enable men and women to do their daily work and enjoy their daily pleasures.[1]

Capital goods consisting of such articles as factory and store buildings, tools, machinery, railway tracks, and steamship docks, when properly utilized, enable the workers of the world to produce more than could be produced without their assistance. Capital goods have value and may be bought and sold on the market, for the reason that such goods are scarce and because desirable consumable goods and services come into being as a result of the utilization of capital goods. Capital goods are valued because of the

[1] Further discussion of this point will be found in Chapter VI.

assistance given by such goods in the production of consumable commodities.

Value. Business men are interested in producing goods or services which have value or which in the usual course of events can be bought and sold at a market price. Commodities which have value always possess two characteristics: there is an effective demand for them, and they are not found in sufficient abundance to satisfy all desire for them. An effective demand is demand supported by purchasing power. Briefly stated, valuable commodities possess utility or the power to satisfy human wants, and they are scarce. Commodities which persons desire but which are plentiful in amount are free goods. Air, under ordinary conditions, is a free good. Business men are not concerned with the production of free goods. Water in the form of rain is a free good; but water passing through irrigation ditches in the arid regions is scarce. It possesses value.

The problems of economics relate to questions of value. It has been stated that the business man is interested in the production of values rather than in the production of goods. Yet ultimately the important matter from the point of view of human good or social welfare is the production of goods and services instead of the creation of values. Here is uncovered a fundamental cause of antagonism between the aims of the business world and the demands of men and women as consumers of commodities. It is a matter of common knowledge that the total money value of the wheat crop of the nation in a year of small crops may be greater than in a year of abundant harvests. The monopolist usually restricts his output of the monopolized article in order that the price of each unit may be enhanced and his total profits increased. But the interests

of the monopolist and those of the consumer are by no means harmonious. The consumer wishes abundant harvests and a plentiful supply of the products of farms, mines, and manufactories. Value signifies scarcity; but scarcity is the bane of the consumer. In a time of national stress such as the United States faced in 1917, speculators found it to their advantage to allow carloads of potatoes to freeze or go to waste in some other manner; but the people of the nation were able clearly to see in that emergency that such business methods were inimical to the welfare of a world needing foodstuffs.

While it is true that business is carried on to satisfy human wants, it is also true that the prime object of the individual business man is to earn a living for himself and family, that is, to make profits. But profits can only be made in the business world by supplying something which men want and are able to purchase. If the production of a small quantity of a given commodity will result in larger profits than the production of a large quantity of the same article, the business man will unhesitatingly choose the former course. He considers himself to be a business man, not a philanthropist. His primary concern is for himself and his family rather than the welfare of that indefinite mass called the general public. It is this socially unfortunate situation which has led to the passage of laws regulating railways and other industries, of pure food laws and regulations in regard to weights and measures. These laws and regulations aim to mitigate the evils arising because of the antagonism between profit-making and commodity-making.

The value of a commodity is expressed in terms of another commodity. Two bushels of oats may be equal in value to one of wheat, or a pound of butter may exchange for one

and one half dozens of eggs. We are considering value in exchange; and exchange value is always a ratio. If the value of one commodity in terms of another goes up, the value of the second in terms of the first is lowered. If the exchange value of oats for wheat changes from two to one, to three to one, the value of wheat measured in oats has risen and the value of oats in terms of wheat has fallen.

Price. Price is a form of exchange value. It is the value of a commodity in terms of money, or in this country in terms of gold, which is our standard money. If wheat is selling at a dollar a bushel, the exchange value of wheat in terms of gold is equal to the amount of gold in a gold dollar. Market prices are, then, simply the exchange values of commodities in terms of one commodity, gold, used as money. The price of an article tends to fall in a given market when the supply of the article offered on the market or likely to be offered increases, or when the demand for the article decreases; the price tends to rise when reverse conditions obtain. The general level of prices — the average price of all commodities — may fall or rise as the value of gold rises or falls. In recent years, the quantity of gold available has rapidly increased, — faster than the demand for gold — and the value of gold has fallen. Or, in other words, the general level of prices of commodities has risen.

The price of a given commodity, for example, of a bushel of potatoes, cannot, year after year, fall below the expense of producing a bushel of potatoes. If the price should fall below that level, and remain below for any considerable length of time, many farmers would cease raising potatoes. The supply would soon be reduced and presently the price of potatoes would rise. On the other hand, as the price of potatoes rises, consumers begin to economize in their use

and substitutes are purchased. As a consequence, the demand for potatoes is somewhat reduced, thus tending to prevent further rise in price; and, secondly, farmers are likely to grow more potatoes, which in turn tends to check the rise in the price of potatoes. Price is fixed by the demand and supply on the market; but the upper limit is practically determined by the effective demand of purchasers for the given commodity, and the lower limit is fixed, except temporarily, by the expense of producing the commodity.[1]

TOPICS FOR DISCUSSION

1. Give a list of the wants of a six-year-old child; of a man; of a woman.
2. What are some of the things you want because you are not living in an isolated place?
3. Why do you want those articles?
4. Could an article have value unless desired? Unless scarce?
5. Farmers sometimes accept three cents a quart for strawberries. Why? Would they continue to grow strawberries if they never received more?
6. Show that all commodities are not equally necessary to the support of human life.

[1] In this simple explanation, no account has been taken of the fact that various producers have quite different expenses of production and that consumers have very different demanding power. Of course, the market price of an article often temporarily falls below the expense of producing it.

CHAPTER V

DIRECTION OF THE WORKERS OF THE WORLD

The National Income Equals the Production of the Nation. Omitting from consideration such exceptional methods of getting income or purchasing power as stealing, gambling, or accepting gifts, — and these three methods of getting an income spell subtraction from the income of some other person, — personal incomes may be classified under four headings: wages, interest, rent, and profits. It is not desirable in an elementary textbook to give place to a discussion of the many theories which have been advanced in regard to wages, interest, rent, and profits; but some attention will be paid to certain practical considerations which determine the magnitude of these shares in the national wealth.

The total amount of the four forms of income plus the net income from businesses such as the post office and municipal plants, operated by the governmental units, equals the entire income of the community or of the nation.[1] It also is equal to the entire production of the community or of the nation, less an allowance for wear and tear upon the machinery and equipment used in business, called depreciation. A great exchange takes place in our market places. The people of the United States produce in a given year a

[1] The expenditures of our governmental units are chiefly derived by means of taxation, but taxes are deducted from the income of individuals. See Chapter XXII.

vast amount of grain, coal, clothing, lumber, brick, pianos, jewelry and so on through a very long list. These commodities have market prices; and we may calculate the entire money value of everything that is produced within our national boundaries. Disregarding foreign trade and investments abroad and the like, this total is also equal to the money value of wages, rent, interest, and profits. In order to make this point clear, let us center our attention upon one factory. The total annual income — the gross receipts — is equal to the sale price of everything produced within the factory during the year. After deducting the expense for raw materials, insurance, and the expenditure for repairs and depreciation of the plant, the remainder may be called the net product of the plant, considered as a unit. This net product will be divided among four different groups of persons: the wageworkers in the plant, the owners of the capital employed, the owners of the land upon which the plant stands, and the managers of the business. That is, the total net product, or more accurately the money value of the net product, will be divided into wages, interest, rent, and profits. Of course, one individual may receive income from more than one of these four sources of income. For example, the owner of capital — a bondholder — may also be the manager of the plant. What holds good for one plant is also true of many and of the nation considered as a unit. If the manager of a manufacturing enterprise is able to increase through more efficient methods the total production of the factory, the total amount to be distributed as wages, interest, rent, and profits will, therefore, be increased. Likewise, the total production of the nation may be increased and the sum total of wages, interest, rent, and profits paid within the nation increased in the same ratio.

The student may, perhaps, get a better understanding of the situation if a small isolated island peopled with, say, one hundred persons, be carefully studied. Whatever holds good on the small island also is true in the bigger world. If one half of the people on the island are idlers, the total production is reduced below the normal amount, and the total to be distributed in wages, interest, rent, and profits will be reduced. Poverty will be the lot of many. Idlers and useless workers are likewise undesirable in the larger world in which we live. To hire men, paying good wages, to carry stones across a road and then back again is foolish and wasteful when streets might be paved by utilizing the labor power of the same group of workers.

The Consumer and Business Enterprise. Every person who makes a purchase helps to decide what the workingmen of the country will produce. When you decide to buy a pair of gloves with your two dollars instead of a pair of skates, you help to determine how many workers shall be employed in glove-making and how many in skate-making. Your money measures your purchasing power; and individuals possessing purchasing power determine what shall be used. If many men buy beer or cigars, instead of neckties or shoes, business managers will hire more men and obtain more capital to produce beer and cigars, and a smaller number of men and less capital will be employed to manufacture neckties and shoes. As has been pointed out, industry is primarily carried on to produce the commodities and services which men and women with purchasing power want.

The enterpriser or the manager of a business organization actually makes the decision in regard to how many units of a given article shall be produced per week in the

plant; he also determines in what manner it shall be produced. However, the decision made by the enterpriser is in turn dependent upon the demands of the consuming public. If the enterpriser persists in manufacturing an article or a particular variety of article which the consumer no longer, for some good or some inadequate reason, wishes to purchase, his business will cease to be profitable. Advertising and soliciting are methods of inducing the consumer to use certain products. The consumer ultimately determines the course of productive activity; but the consumer may be "educated" by skillful salesmanship. The judicious advertising of certain breakfast foods, kodaks, and motor cars is indicative of the importance to manufacturers of appealing to the consuming public. The politician and the salesman are both looking for votes: the former for a given man or group of men to be delivered at the ballot box; the latter for a given product, the vote to be delivered over the counter of the salesroom, the grocery store, or the meat market.

Savings. Saving is merely directing the workers of the world to produce capital goods — tools, machines, locomotives, factory buildings, etc., — instead of those consumable goods which we eat or wear or use up in some direct fashion. When savings are referred to, money savings are usually in mind. But money is not "saved" except by the miser who buries coin in the ground or hides it under the carpet. The person who puts his savings in a savings bank does not actually "save money." Much fallacious reasoning may be found in this connection. If we try to understand what actually happens, it is not, however, difficult to see what saving really is.

When savings are placed in a savings bank the depositor

decides not to spend all of his income on food, clothing, shelter, and recreation, that is, for consumable goods and services. Because he can get an additional return at the end of the year — interest — for his savings, he decides to place them in the bank. But savings are purchasing power. The bank again loans these savings or this purchasing power to some enterpriser, to an individual or company engaged in business. The enterpriser uses this purchasing power, not to buy food or clothing or shelter, but to purchase tools, machinery or a factory building. A farmer may build fences or a barn as a consequence of saving. A portion of the money income which he receives from the sale of his farm products — wheat, corn, potatoes, etc., — is used to buy lumber, other building material, and labor. Again, in this case, saving merely changes the direction of the productive effort of business enterprise from consumable goods to capital goods. The maintenance and the increase of the capital goods of a nation are results of saving.

Savings mean the employment of more workers in producing capital goods — tools, machines, railways, and the like — and less in producing consumption goods — candy, food, luxuries, etc. Saving changes the direction of world's workers into new channels. Savings, except for the miser, are not stored-up money or other articles. From another point of view, saving is a transfer of the right to purchase to some other individual or company for a return called interest.

Luxury and Waste. Wasteful consumption causes the misdirection of the activities of the workers of the world. It means that workers are directed to produce luxuries for ostentatious display or to satisfy the whims of certain individuals possessing purchasing power. Wasteful con-

sumption causes a reduction in the amount of necessities, of comforts and of capital produced. Purchasing power to the extent, perhaps, of a billion or more dollars per year has been wasted in the United States alone on "luxury, show, and vice." Such useless waste is one of the reasons for poverty and for the large mass of ill-to-do in this great "prosperous" nation.

If a flood destroys bridges and houses, it will be necessary to employ men and utilize materials to replace the destroyed structures. Of course better houses and better bridges may replace those carried away by the water; but, if there has been no destructive flood, the materials and the work of the men might have been used to build other and additional buildings, to pave streets or construct railways. And, as a result, the community would be better equipped. From this broad social or national point of view which looks upon the community or the nation as an owner would upon his plantation or his factory, destruction of property by fire, flood, or tornado is not to be desired. But from the point of view of certain business men in the community, it may be called a blessing. The merchant who sells window glass may find his profits enhanced by a severe hailstorm; and the plumber may have extra work because of an unusually cold snap. War, the most destructive of all world calamities, makes huge profits for the manufacturer of munitions. Here again social welfare and individual or special interests run counter to each other. The liquor interests, for example, insist upon their right to do business even though it has been conclusively proven that the consumption of liquor is inimical to social welfare and national efficiency.

Expenditures for luxuries are often justified by the argument that such demands make work for many wageworkers

who otherwise would be idle. This " make work " doctrine has been so generally accepted and so persistently put forth that it is worth while to consider the matter briefly. If workers are set to producing orchids, they cannot grow potatoes or wheat. If hundreds of wage earners are footmen and valets, these workers cannot be used to make clothing, shoes, foodstuffs, or houses. Another reference to the small island may make the problem clearer. If a large fraction of the total number of workers on the island are engaged in producing luxuries, the amount of necessities and comforts produced must be necessarily reduced below the amount which might be anticipated if a smaller number were workers of this type. Indeed, a condition might easily be reached in which the majority of the islanders were in abject poverty while a few rich were being surfeited with luxuries.

The exigencies of the great war into which the United States was forced in 1917 soon taught the American people that many forms of expenditures must be curtailed in order that munitions, ships, aeroplanes, and food might be produced in sufficient quantities to insure success in the great struggle. But, it is also true in times of peace, that excessive expenditures for luxuries may mean a deficient production of necessities and comforts. The community, the city, the nation, or the generation which devotes a large share of its energy to satisfying cravings for fine clothing, costly food, cabarets, theaters, and expensive jewelry must go without the fine architecture, good roads, great libraries, and art galleries which would be available for a more frugal people with less expensive tastes and who placed less emphasis upon purely personal and fleeting pleasures.

Individuals engaged in the business of producing luxuries will suffer temporarily when a sudden curtailment of such

expenditures occurs. The entrance of the United States into the war adversely affected the jewelry business; but, in the long run, workers in a declining industry will go into other lines of work. The florists and their assistants might readily become market gardeners. The makers of very expensive garments could without great difficulty produce cheaper grades of clothes. As long as there is a scarcity of necessities, curtailment of expenditures for luxuries can be justified. However, some expenditures for things of beauty and refinement are doubtless desirable and make for human progress. The evil lies in excessive or conspicuous waste or luxury. The whole problem finally reduces to one of direction of the energy of the world's workers.

The Rights and Duties of the Consumer. Business principles in regard to the advertising and selling of wares are changing. The old saying, "Let the buyer beware" was founded upon the idea that the misrepresentation of goods to the purchaser was good business. The coming of the carton, the use of the original package unopened from manufacturer to consumer, and the one-price, money-back-if-you-are-not-satisfied method of selling goods, are transforming the making and selling of goods into something more desirable and honorable than a method of fleecing customers. The rights of the consumer are further safeguarded by pure-food laws and the like. Both the law and the new theory of business operate to protect the ultimate consumer, — and, since all are consumers, to protect the community.

Much has been written and spoken about the rights of the general public — the great third party — in disputes between workingmen and their employers; but very little has been said about the duties of the general public as consumers who make up the public. It is time for an analysis

of the duty of the consumer. What may he be allowed to do with his purchasing power? Is it in the interest of social welfare and human betterment that each and every person possessing purchasing power do with it exactly as he desires? Now, as has been indicated, upon the direction of the purchasing power of the people depends the kind and quality of the output of the nation. If consumers are anxious to purchase large quantities of useless and harmful products, many workers and business establishments will cater to the demand. The spendthrift, the beer drinker, and the person who eats much meat are expensive persons to maintain. A person can be well fed at less social or national cost upon cereals and vegetables. Scientific selection of consumable goods is as important in national economy as efficient management of labor and capital.

Society is beginning to curb the enterpriser. He is restricted in a variety of ways by anti-trust laws, by labor legislation, by governmental regulation as of railways, and by other means. Society also restrains the workers. Laws have been placed upon the statute books in regard to strikes, boycotts, injunctions, arbitration and conciliation, social insurance, apprenticeship in certain trades. But the consumer, except as a war measure, has been subject to very little legal control. Laws have been passed in regard to the consumption of intoxicating beverages and certain drugs; but beyond this short step little has been accomplished. Nevertheless, the misdirection of consumption causes serious individual and social maladjustments. If the American nation can curb a large trust, why can it not restrain the consumer who insists upon furnishing banquets to guests at a cost of $100 per plate, in a city filled with the victims of poverty and under-nourishment?

The passage of graduated income and inheritance tax laws is a movement in the direction of curbing the consumer. By taking a portion of a citizen's income or inheritance, the government, representing society, the general public, or the nation, directs the purchasing power which otherwise would have been a matter of individual decision.

Thus far only the total output of the nation has been considered. Now, the next problem is to analyze the division of the total income into the four factors: wages, interest, rent, and profits. With a given state of production, that is, with a certain amount produced in a year, what determines how much should go as wages, how much as interest, how much as rent, and how much as profits? This problem of distribution is perhaps the most difficult and vital of all economic questions.

TOPICS FOR DISCUSSION

1. What are some of the articles widely advertised?
2. Distinguish between necessities and luxuries.
3. Is the miser or the spendthrift the more desirable member of society?
4. When you make a deposit in a savings bank, do you affect in any way business operations?

CHAPTER VI

SHARES IN THE NATIONAL INCOME

Wages. Wages are the price paid for labor; salary is one form of wages. In economics the term "labor" includes all forms of human effort in the production of goods and services demanded by human beings. Labor includes the efforts of the unskilled toiler, the work of the trained physician or of the teacher, and the services of the bank president or the railway manager. The wage rate is actually fixed by means of a bargain between the worker and his employer. Labor is bargained for much the same as is sugar or steel. As is true of commodities, the wage rate tends to rise when the number of workers decreases or the demand for workers increases; and the wage rate tends downward when the number of workers increases or the demand for workers decreases. But labor power differs in certain important respects from an ordinary article of merchandise. The worker must go with his labor power; labor power can be exercised only in connection with the body of the worker. Shop conditions vitally concern the seller of labor power, — the wageworker. The worker must also live near his work; the sale of his labor power determines where he and his family must live as well as who his companions shall be during working hours. Again, labor power is a highly perishable commodity. To-day's labor power cannot be sold to-morrow; it must be sold to-day or it is wasted.

The rate of wages paid varies greatly. At the bottom of the scale is the sweat-shop worker who receives a pittance

of five or six dollars a week; at the top of the list will be found the captain of industry receiving a salary of $100,000 or more per year. The workers of the nation may be roughly classified into four somewhat distinct groups, — the unskilled, the skilled, the professional and highly skilled workers, and the industrial leaders or captains of industry. Each one of these large groups could be subdivided into several smaller groups. By far the larger number are found in the first group, and the unskilled receive the lowest wage. The fourth group consists of a relatively small number of highly paid workers. Between these groups, and, indeed, between subdivisions within a group, there is very little competition. The wage rate for each group is fixed in a large degree without reference to the rates paid for workers in other groups.

Individual Bargaining. There are two kinds of wage bargains, individual and collective. When each worker, acting independently of his fellow workers, applies for work and agrees with his employer as to rates of wages and the conditions under which the former shall work, individual bargaining is utilized. Nearly all bargaining between workers in the professional group or in the upper working group is individual. The average worker of the unskilled or of the skilled groups is usually at a great disadvantage when he bargains individually with an employer of many workers. The seeker for employment cannot afford to lie idle; his family expenses continue while he is out of a job. The matter is of much importance, as a rule, to the worker, of greater importance than it is to the manager of the business needing another employee. To the latter, it is merely a question of one more or one less employee and a slight difference in profits. The employer of many workers is more skilled in bargaining than the worker; and the former

is usually well informed as to the labor market. Other workers can readily be found in normal times to do the routine work of the unskilled laborer. The skilled worker is in a less disadvantageous position; it is more difficult and costly to fill his position.

In reality, the individual bargain made with the lower paid workers is a one-sided matter. The employer tells the seeker for work that he is paying so much for the kind of labor in question. The wageworker can take the wage offered or he can look further. Of course, if the employer finds it impossible to get all the workers he needs, the wage rate may presently be raised; although employers are very loath to raise the level of wages. But the essentials of a real bargain are chiefly conspicuous by their absence when an individual unskilled worker confronts the typical employer of labor.

Collective Bargaining. One of the chief objects of organized labor is the substitution of collective for individual bargaining. In collective bargaining a representative of a group of workers bargains with the employer. The wages of the entire group are determined as the result of one bargain. In collective bargaining, the two parties stand much more nearly on a plane of equality than when the single worker meets his employer. The labor representative is usually a capable man who has had experience in the labor market; he is acquainted with the facts as to demand and supply. A failure to reach an acceptable agreement is a much more serious matter to the employer than in individual bargaining. The failure to make a bargain may result in a strike closing temporarily his shop, factory, or mine.

Many employers refuse to bargain collectively with their employees. Various reasons are offered for such refusal,

but the real reason is usually found in the fact that collective bargaining results in higher average wages and better working conditions than individual bargaining. Of course, exceptions to this statement can readily be found; but it is true if many factories or mines are taken under consideration. For the manager of a corporation to refuse to bargain with representatives of organized labor is peculiarly illogical because the manager is himself the representative of the organized stockholders of the corporation.

In several industries in this country, collective bargaining is the rule, — for example, coal mining, stove making, printing, railroading. The biggest labor market in the world is found in the American coal mining industry. Wages, hours of labor, and other conditions in the industry are determined from time to time by collective bargaining between representatives of the United Mine Workers and the coal mine operators. These representatives meet, bluff, higgle, and bargain. The alternative is a strike; but strikes are rare in the mines in which the miners are organized. The system of collective bargaining is called the trade agreement system. Trade agreements can best be carried out when both sides are well organized and of almost equal strength. Wage bargains in the case of workers in the third and fourth groups are almost invariably individual; but little or no hardship is experienced by these well-trained professional workers and managers of industrial enterprises.

Arbitration. The differences between employers and their employees in regard to wages and other matters pertaining to the labor contract cannot always be settled by bargaining. In such an event the workers may quit work collectively; or the employer may close his establishment to his workers. The former is called a strike; the latter, a

lockout. In the days of small-scale industry, a strike or a lockout affected outsiders very little; only those directly concerned were much inconvenienced. But to-day a strike in any large-scale industry is a matter in which the people of the nation or at least of the immediate locality are vitally concerned. A railway or coal mining strike will tie up the industries of the nation and soon starve or freeze many families who are not directly interested in railroading or coal mining. The great "third party," or the general public, often feels that employers and employees ought not to be allowed to fight out their differences to the detriment of the innocent bystanders. As a consequence, a demand has become articulate that some method, other than the crude one of the strike, be used to settle labor disputes in large-scale industries and particularly in industries such as railways and municipal utilities.

Arbitration is an orderly scheme for fixing wages and determining other items in the wage contract. A board, usually composed of three persons, is selected to make a determination. This board may be composed of one person representing the employer, one representing the employees, and the third representing the public. The third person is supposed to be neutral; he is in reality as a rule the umpire or actual arbitrator. This board acts as a sort of court. Both sides present their case; and the board after careful consideration renders a decision. If arbitration be compulsory as in certain Australasian states, both parties are obliged under penalty to accept the decision. In the United States, certain states, and the federal government in the case of interstate railways, make provision for voluntary arbitration of labor disputes. The parties concerned may refer the difficulty to a board of arbitration. A recent

decision of the United States Supreme Court indicated that compulsory arbitration was legal and desirable in the case of interstate railways.

The advantages of the arbitration process may easily be discerned. The strike with all its violence, suffering, and hatred is eliminated. But the difficulties attending this method of settling labor disputes are many. If the controversy is over the rate of wages, the court can find no scientific method of determining what is a fair day's wage. No student of economics or of labor problems has been able to bring forth a yardstick for the determination of the rate of wages which both sides to the controversy are willing to accept. The consequence of this unfortunate state of affairs is that a board of arbitration fixes wages by some rule-of-thumb plan, — what wages have been in that industry, what wages are elsewhere, or with reference to the cost of living. The findings of a board of arbitration are always in the nature of a makeshift or a compromise. The board patches up the difficulties, and the industry proceeds without the shock of a strike. But, unfortunately, the seeds of further difficulty are in evidence. When hours of labor instead of wages are to be determined by the board, the difficulty is not so considerable. It is possible to determine with some degree of accuracy what is a "fair working day." However, when the issue is the recognition of the union or the matter of open or closed shop, the board has no adequate rule or scientific principle to guide it.

Minimum Wage. Another method of modifying the conditions of the wage bargain is minimum wage legislation. A minimum wage law does not determine the wage rate; it merely fixes a lower limit. Competition or monopoly, as the case may be, is only interfered with in so far as the

employers are prevented from depressing the rate of wages below the legal minimum. This minimum is usually determined by ascertaining, as accurately as may be, the lowest possible cost of living of the workers under consideration. Such legislation has for its aim the protection of unorganized and unskilled workers who are forced by economic necessity to accept, unless protected by law, wages too low to enable them to maintain physical efficiency. In the United States, the state laws apply only to women and children.[1] A minimum wage law may be compared with laws fixing minimum sanitary conditions or minimum conditions of safety. When organized labor fixes a minimum wage for the organized workers of a given occupation, the minimum is always fixed higher than a minimum fixed by legislation would be placed. Organized labor demands more than a bare subsistence wage.

Interest. Interest is the price paid for the use of capital, or for the use of various instrumentalities which are the product of past effort, such as buildings, tools, machines, railways, ships, and docks. It is usually stated that interest is paid for the use of money or credit. In the great mass of borrowing, however, it is not money or credit which is wanted except as a means of obtaining equipment, buildings, or other forms of capital. Interest can be paid because a manufacturing plant, for example, is able to increase its production by the use of more capital. An automobile manufacturing company borrows money. With this money or purchasing power, the company buys additional machinery. With the increased number of machines, the plant turns out more automobiles per week. If the manufacturer has made good business calculations, the additional output resulting from

[1] For a discussion of the legislation, see Chapter XVI.

the use of the additional machinery will pay for the wear and tear — depreciation — on the new machines and the interest on the amount of money borrowed; and a surplus will be left for additional profits. Business men are willing to pay interest because they expect to be able to make profits because of the use of the capital purchased with the money borrowed.

Interest is calculated at a certain percentage of the money borrowed — say, 6 per cent per annum. Actual or gross interest rates differ greatly. Money is often loaned on excellent security for $3\frac{1}{2}$ to 4 per cent. The Liberty Loan of the spring of 1917 bore $3\frac{1}{2}$ per cent interest; and the bonds were tax free. Some " gilt-edged " railway bonds bear 4 per cent interest. On the other hand, investments in which the uncertainty or risk is greater bear a higher rate of interest. In reality, high interest rates are part interest and in part return for risk taking. If an investment promises ten per cent interest, it is quite certain that a portion of the ten per cent should accurately be called a return for risk taking; the investment is speculative or it is not " gilt-edged."

Rent. Rent is the payment made for the use of land; in popular language, the return from the use of a factory building, office building, or residence is usually called rent. The latter return should, however, be designated as interest. Land furnishes space for all kinds of human activities, — for agriculture, for transportation over roads, railways, and waterways, for manufacture, for mining, for residences, for recreation in parks, playgrounds, and athletic fields, for school buildings, libraries, and museums. Land provides space for human activities and for the utilization of natural resources such as climatic advantages, water-power, and mineral wealth. Rent arises because, first, there is a scarcity

of good — well-located — land; and, secondly, because in the utilization of land the phenomenon of diminishing returns is observed. These two causes of rent should be carefully studied.

In a city, the land in the downtown section is the most expensive; the owner of such land receives high rents. On the contrary, land situated far from the centers of population, that is, far from markets, bears no rent or a very low rent. Many persons wish to use the first-mentioned kind of land; but few desire to use the second. Competition among business men wishing to rent good city land, forces up the rental return. A business man is willing to pay more rent for a lot in the downtown district than for one of the same area and frontage located in the suburb.

Let two stores of the same equipment, size of building, and efficiency of labor and management be compared. One located downtown will be more easy of access to the majority of would-be purchasers, its market opportunities are better, than another located in the outskirts of the city. At the end of a year's business, disregarding payment for the use of land, the downtown store will make more net profits than the other. The difference in the profits — $1000, for example — cannot be attributed to capital or labor or management, because these are by hypothesis equal in the two stores. The difference must be attributed to the greater desirability of the location of the downtown store. The additional rental return which the owner of that lot can obtain in comparison with the one located far from the center of the city is $1000; and the selling value of the former is much greater than that of the suburban lot. The same reasoning applies to two farms of equal size and fertility and operated in the same manner and with equal efficiency. The one well

located will yield a higher return or rent than the other located where access to markets is difficult. Rent is a measure of the desirability of land or of the superiority of one plot of ground over another in regard to location, climatic conditions, rainfall, configuration of the surface, mineral wealth, etc.

Land which is poorly located or favored by few climatic advantages may yield no return over and above wages, interest, and ordinary profits. Such land is designated as no-rent land. The rent of all other kinds of land may be measured by the advantages possessed over no-rent land. The competition of business men for desirable plots of ground will finally cause land to be utilized for the purpose for which it is best suited. For example, land in the downtown district of a great city will not be used for farming or for market gardening; it will be used for store or office buildings. Land near a city may be used for market gardening but not for wheat raising. Land may be sold for a price because it enables the owner to receive a return in the form of rent. No-rent land is no-value land, — unless there is a fair prospect that it will become rent-bearing in the not distant future.

Many writers insist that rent is paid for the fertility of the soil as well as for location. But, since the soil wears out or loses its fertility when cultivated, in a manner similar to a machine, and must be renewed by fertilization, it seems more logical to call soil capital and the return ascribable to it interest. Rent is that which is paid for location and standing room in the case of both agricultural and urban lands. Since water power and minerals are not renewable by human activity in the way in which capital is renewed or replaced, the return ascribable to the control or ownership of mineral wealth and water power is also placed in the category of rent.

Diminishing Returns. It has been pointed out that labor and capital employed upon land and skillfully directed by an enterpriser will yield under normal conditions over and above depreciation and cost of raw materials, wages, interest, rent, and profits. But it is found in all lines of business activity that as more and more labor and capital are utilized without changes in the method of application, on a given area of land,—for example, one acre,—the total return increases, but after a certain amount or number of doses has been applied the return per unit of labor and capital decreases,—diminishing returns appear. On the other hand, insufficient applications of labor and capital to a given area of ground produce small returns per unit of labor and capital. The law of diminishing returns in farming may be illustrated by the following example. The application of one unit of labor and capital — so much labor, so many horses, farming implements, and buildings, a certain amount of fertilizer, etc. — will produce on a farm of 160 acres, 4 units of products; the application of 2 units of labor and capital will produce 10 units of products; 3 units, 12; 4 units, 14; 5 units, 15. In this illustration, increasing returns arise up to the application of two units of labor and capital; at that point diminishing returns appear. The land is not efficiently cultivated by the application of one unit; the farmer would do well to use his labor and capital on a smaller area of land. Two applications return the maximum yield per unit of labor and capital; but after the application of two units "the harvest does not increase in proportion to the work applied."

If land were free, if it could be obtained as it was by the early American settlers, the farmer would find it to his advantage to utilize his labor and capital in such a manner

as to use two units to every 160 acres. If land is valuable, if additional land must be rented and a rent paid, it may be profitable to use three or four or more units of labor and capital upon 160 acres rather than to rent more land, pay more rent, and spread the labor and capital over a larger area. Without going further into the theory of diminishing returns, it may be stated that the higher the rental return or the more valuable the land, the greater the amount of labor and capital which may profitably be used upon a given acreage of land, or the more intensive the cultivation of the land.

The law of diminishing returns applies also to other forms of business activity, — manufacturing, mining, merchandising, transportation, etc.; but more labor and capital can, as a rule, be applied to a given area of land before diminishing returns appear, than in the case of agriculture. A manufacturing plant is spread out over several lots instead of being erected three or four stories in height on a smaller area. Railways use two, three, and four tracks and a wide right of way instead of one track and a narrow right of way. Diminishing returns fix a limit to the height of office buildings. But, let it be repeated, the more valuable the land the more intensive the utilization of labor and capital which can profitably be made upon the land.

If it were not for the appearance of diminishing returns, all manufacture might be conducted on a small bit of ground and all necessary agricultural products might be produced upon a small area of land. Under such conditions, good land would never become scarce; and it may be assumed that rent would not appear, or at least would never be of much economic importance. Inventions, new methods of doing work, and more efficient management may enable

enterprisers to utilize profitably more labor and capital than under former conditions; but sooner or later a point will be reached when further applications of labor and capital, using the same methods of application, will add smaller and smaller yields per unit.

Rent and Land Value. Unlike interest, rent is rarely expressed by the percentage method. Rent is usually reckoned by the lump-sum method, so much per acre or per lot. The value of a piece of land is ultimately determined by its rent-bearing qualities, present and prospective. Lots in the downtown section of a growing city are salable at high prices because such lots, if built upon, bring to the owner a high rent and may confidently be expected to yield still higher rents as the city grows. Vacant lots are salable because of prospective rental returns. As a rule rents increase and the selling value of land rises as the population increases and as business opportunities become more and more desirable. In large cities, land is often sold for hundreds of dollars per foot front. Land, as a location upon which to carry on the work of the world, has apparently no upper limit as to selling value. The selling value of a building, however, is always approximately equal to the expense of erecting a similar edifice. But land is not produced as is capital, and its amount is limited and fixed. The fortunate owner of a piece of land in a large city can receive a large return from it; he can in effect levy toll upon his less fortunate fellow citizens. About one twelfth of the national income is taken by land owners in the form of rent.

Profits. Profits "are the surplus over and above the expenses of production." The rate of profits depends upon the skill and enterprise of the business man managing the

industry or upon some superior advantages in the operation of the business. After the business man, the enterpriser, has paid all expenses, — for raw materials, fuel, insurance, taxes, rent, interest, wages, etc., — and allowed for depreciation, the remainder or the surplus over and above expenses is designated profits. Rent, interest, and wages are relatively stable from year to year; but profits are unstable and may experience extreme fluctuations from year to year. A business may suffer a loss or receive no profits one year, and receive large profits the following twelve months. Profits, like rent and wages, vary from business to business and from enterpriser to enterpriser. One steel plant under excellent management may make large profits while a less able enterpriser in the steel industry may receive only nominal profits. Also, unlike other shares in the distribution of the national income, profits are by no means homogeneous. Profits may be roughly classified under one or more quite distinct heads: wages of management, returns due to extraordinary ability of the enterpriser, chance gains, and gains due to monopoly power.

The amount which must be allowed the manager or enterpriser for his part in directing the business is the wages of management. The enterpriser must decide upon the particular methods used in the operation of the business; this may be differentiated from the work of the wage earner who follows directions. Many farmers are both laborers and enterprisers. They do some of the regular farm work and they are also responsible for the plans of operation which are followed. Unless the profits received equal or exceed the wages which the enterpriser could receive as a hired laborer in other plants, the enterpriser is likely to close up his business and become a wage worker.

Enterprisers or managers possess very different grades of ability and initiative. Skillful managers who are able to foresee changes in the business and who are able to coördinate efficiently the labor and capital under their direction make gains which do not accrue to the less capable and less efficient managers. Profits of this sort may be designated as due to extraordinary ability. This type of profits, as well as the remaining two classes, is a surplus over and above wages of management.

Chance gains are the consequences of certain unusual or fortuitous changes. Chance gains may often be balanced in the long run by chance losses. A sudden increase in the price of a given commodity may allow certain producers to make unusual profits. The recent rise in the price of cotton benefited many companies and individuals holding large stocks of cotton.

The most persistent and the most important kind of profits is monopoly profits. In a succeeding section, the price-fixing plan of the monopolist will be discussed. If a monopoly is successful, if it is worth while, the market price of the monopolized commodity will be so fixed that greater net returns will be received by the monopolist than would accrue under competitive conditions. This additional return is a monopoly profit. In the case of a well-established monopoly, extraordinary returns will be received year after year by the fortunate owners of the monopoly.

SUGGESTIONS AND TOPICS FOR DISCUSSION

In this chapter, many difficult theoretical problems in regard to wages, interest, rent, and profits have been omitted or merely hinted at. Different theories are advanced by different writers on economics. The attention of the student is particularly called to the fact that the majority of authorities, unlike the author, designate fer-

tility of the soil as a property of land rather than as a form of capital.

1. What is the average wage of unskilled workers in your community? Of machinists? Of teachers?

2. What is the usual rate of interest on notes secured by good first mortgages?

3. What is the interest rate on bonds issued by your city or town?

4. Where is the most valuable land located in your city? Why? What is its selling value per foot front?

5. Do you know of any case of chance gains made in your community? Of monopoly profits?

CHAPTER VII

WEALTH AND INCOME

Distribution of Wealth in the United States. Wealth is desired by individuals because its ownership gives an income to the owner; it makes possible the satisfaction of wants and desires; it enables the owner to command the labor and the time of others. The money value of the wealth of the American nation — farms, factories, mines, buildings, railways, raw materials, finished products, etc. — was estimated in 1917 to equal approximately the enormous sum of $240,000,000,000. This amount is so large that we cannot adequately grasp its significance. Assuming that there are 22,000,000 families in the United States, the average money value of the wealth per family is about $11,000. The total given above includes all property owned by the national, state, and local governmental units. The amount actually owned by private families is, therefore, reduced somewhat below this figure. The distribution of this amassed wealth is very unequal. On the one hand, hundreds of thousands of families own only a very small amount of property; but at the other end of the list is the billionaire.

The following is a conservative estimate of the approximate distribution of wealth in the United States: The wealthy class, including about two per cent of the people, own sixty per cent of the wealth of the nation; the middle class, numbering about one third of the total population,

own thirty-five per cent of the wealth; and the great class of the poor, sixty-five per cent of the total population, own only five per cent of the nation's wealth. The average amount owned by a member of the great poor class was estimated to be $400; the great mass of wageworkers are practically disinherited. At the other extreme are the families possessed of great fortunes. If the largest be $1,000,000,000, it is equal to the estimated wealth of 2,500,000 of the poor, — a larger number of persons than live in the third city of the United States, Philadelphia.

Income. The income of the nation — of all families and the net income derived from governmental industries — is the sum total of all that the nation produces over and above an allowance for depreciation.[1] This income may be calculated, the student should remember, by subtracting from the gross product of the nation an allowance for depreciation, or wear and tear, upon buildings, machines, railways, and all other forms of capital used in the country. This income may roughly be divided into two classes: income from services and income from property, land, capital, and monopoly privileges. The money value of the annual national income, that is, the goods and services produced by all the work and activity of the people of the United States, was estimated in 1917 to be from thirty-five to forty billions of dollars. Of this vast sum, about two fifths was property income and approximately three fifths was service income. Two fifths of the national income goes to the owners of land, capital, and monopoly privileges in the form of rent, interest, and extraordinary profits; three fifths is received by workers of various kinds in the forms of wages, salaries, fees, ordinary profits, and the like.

[1] See Chapter V.

Some men and women receive large incomes without working because they own land, capital, or some monopoly privilege; others work long and strenuously for a mere pittance. According to the income tax returns for 1914, there were forty-four families in the United States with an annual income of one million dollars or more. A few years ago, a banker of prominence estimated that the annual income of the wealthiest American was $65,000,000, — it was undoubtedly larger in 1919. Assuming that $730 was in 1914 the average annual income of a wage earner's family, the income of this one wealthy individual nearly equaled the income of 90,000 families of hard-working wage-workers.

The contrasts between wealth and poverty are seen on every hand in all of our large cities. Great luxury on the one hand is found and on the other extreme poverty. Millions of families in this great nation of ours have less than a sufficiency for physical health and social decency; while many are surfeited with luxury. Thousands of school children in democratic America are "noticeably underfed and ill-nourished." The problem of family finance is difficult of solution for the average American workingman. "Making both ends meet" is indeed a hard task for the wage-worker and his family.

Careful investigations made before the opening of the Great War indicated that the income of many families of American wage earners was insufficient to maintain a standard of living sufficiently high to assure the physical efficiency of the family. A low income indicates poor food and insufficient nourishment, inadequate clothing, overcrowded, poorly ventilated, improperly heated and lighted homes. It also means little or undesirable recreation, few

magazines and books, and insufficient medical and dental care. Grinding and hopeless poverty — the poverty of the tenement and of the slums — is a menace to the welfare and stamina of the race. Since the war began, money wages have risen, but it is a matter of common knowledge that prices have also taken an upward course.

Family Budgets. The United States Bureau of Labor in 1903 made a careful study of the income and expenditures of 11,156 "normal" families of American wage earners. A normal family was defined as one having the husband at work, a wife, not more than five children, none being over fourteen years of age, no dependents, boarders, or servants. The total average yearly income of the 11,156 families studied was $650.98; and the average annual expenditures per family were $617.80. The expenditures were divided as follows:

	Per Cent
Food	43.13
Rent	18.12
Clothing	12.95
Fuel and Lighting	5.69
Sundries	20.11

Sundries, it will be noticed, evidently included expenditures for medicine and for the services of physicians and dentists, insurance, books, magazines and newspapers, and recreation. In families having five children the percentage of expenditures for food was 47.24; while in families having no children the percentage was 40.33. The total average income and the average expenditures of the families of American wage earners have doubtless increased since 1903, but the percentages have probably not been markedly modified.

TOPICS FOR DISCUSSION

1. Make an estimate of the price of goods consumed personally by yourself during the past year.

Food — include ice bill.

Rent of home (If owned by family, take the interest on the value of the house and lot and household furniture, add repairs, insurance, and taxes).

Clothing.

Fuel and light.

Recreation.

Sundries.

In the case of food, rent, fuel, and light divide the family expense by the number in the family.

2. Find the average for the class. (The reports need not be signed.)

3. How large a yearly income is required in your community adequately to maintain a "normal" family of a wage earner?

CHAPTER VIII

GROWTH AND DISTRIBUTION OF POPULATION

The Increase in Population. The population of the world increased very rapidly during the nineteenth century; it is estimated that the population in 1915 was nearly three times that of 1800. The number of persons living in the seven most important European countries, Russia, Germany, Austria-Hungary, France, Italy, Spain, and the United Kingdom, increased from approximately 156 millions in 1800 to 344 millions in 1900. The increase in the population of these seven nations was greater during the last century than the total population at the end of the preceding hundred-years period. In the United States, the rate of increase was much more considerable. The increase was from about 5,300,000 in 1800 to 76,000,000 in 1900 and 92,000,000 in 1910. The rates of increase in the eight nations mentioned above were very dissimilar. The percentage of increase for the entire century was the least (45 per cent) in France and the most considerable (1326 per cent) in the United States. No reliable statistics are obtainable for the centuries preceding 1800; but it is generally conceded that the population of Europe remained about stationary in the Middle Ages and increased very slowly down to the opening of the nineteenth century. The nineteenth century was a period of remarkable increase in total population, in the growth of cities, of rapid evolution of scientific methods of production, and of growing security of political relations.

The increase in population during the nineteenth century may be ascribed chiefly to two interrelated human achievements: (1) the extraordinary increase in the per capita production of the means of subsistence; and (2) the decrease in the death rate. The productive capacity of a twentieth-century man using machinery and aided by natural forces such as steam power and electricity is many times greater than that of the eighteenth-century man using hand tools. The productive capacity of the Western world increased faster than the population. The masses of the people at the end of the century were enabled to have more and better food, clothing, and shelter than at the opening of the period. The decline in the death rate was due to this fact coupled with advances in medical and sanitary science. The birth-rate of civilized countries declined during the century, especially in the latter portion of the period.

Growth of Cities. Even more remarkable than the increase in total population has been the growth of cities. The city of to-day is the product of modern industrialism, engineering, and sanitary science. Ancient cities were comparatively few in numbers, small in population, and unhealthful. The death rate in medieval cities was also very high. Because of recent achievements in transportation, in scientific agriculture, in manufacture, and in mining, large aggregations of population are able to receive a regular and sufficient supply of food, fuel, and other necessities. Other technical achievements have added to the attractions which induce people to dwell together in large numbers. Before the nineteenth century the predominant type of civilization was rural; to-day the typical citizen is an urban dweller.

In 1800, there were in the United States only six cities with a population of 8000 or more; a century later there were

556 such cities and, in 1910, 779. "In 1790, only 3.35 per cent of the people of the United States lived in cities. By 1900 the majority of the population in fifteen states was urban and over two thirds of the population of eight states." In 1916, forty-one per cent of the population lived in cities of 8000 or more inhabitants; and each of three cities boasted a population of over 1,000,000. The estimated population of Greater New York in 1916 was 5,600,000, — a greater number of persons than lived in the United States in 1800. The cities of Europe have also grown with extraordinary rapidity since 1800. London, Paris, Rome, Vienna, and Petrograd have rivaled New York, Philadelphia, and Boston in the rapidity of their increase in population. The population of Paris was 547,000 in 1800, and 2,714,000 in 1901; the figures for Berlin for the same years are 172,000 and 1,888,000.

Population and Resources. Many of the most vital questions affecting the welfare of the men and women of to-day center around the problem of population. The core of the problem of population may be reached directly by asking: What is the best relation between population and resources? In primitive times clearly the population of a given area was of necessity limited to a comparatively small number; but modern methods of production require for efficient functioning a much larger population. But how large? Increase in numbers has made possible division of labor and increased production; it replaces isolation by established and varied social relationship; cities, good transportation facilities, the daily paper, the art and leisure of to-day, and a multitude of other visible accompaniments of modern life, have come into being as the population has increased. But there is a limit to the desirable increase.

In some portions of the earth's surface where natural resources are provided in a niggardly manner and climatic conditions are unfavorable, even a scanty population cannot be maintained in comfort. Again, in extremely fertile regions the population may be so great and the productive methods so backward that the great mass of the inhabitants live in extreme poverty. China is an example of a nation having too great density of population. The most welcome condition is one in which the population is sufficiently large to allow the use of big-scale and scientific methods of production, transportation, and marketing; but not so great as to cause a reduction of the average income per person as the numbers increase. The desirable balance of population and of resources changes from time to time and from country to country.

Evidently, if the population tends to increase faster than the improvements in the productive capacity of the nation, the average share of necessities and comforts will be reduced. The population will be on the road toward greater and greater misery, toward lower and lower standards of living. But, under such unfortunate circumstances, stronger individuals and groups will try to maintain their accustomed standards of living at the expense of weaker individuals, groups, or classes. At the same time, the temptation will be strong to migrate to and to control the thinly occupied and not well-developed portions of the globe. A condition of this type produces antagonisms which are likely to be fatal to the development of democracy, and which offer many opportunities for international friction.

The Immigrant in the United States. It was pointed out in an earlier chapter that the pressure of population upon the food supply was the cause of much primitive warfare.

In modern times, the pressure of population, the demand for markets and the desire for the control of natural resources are potent, underlying causes of struggle between nations. A militaristic people have always emphasized the importance of a large population. The autocrats of the world, the advocates of the "mailed fist," have ever dilated upon the desirability of a high birth-rate without giving adequate weight to the probable effect upon the level of comfort. Food for the Dogs of War was the foremost consideration; the mass of men and women were the weapons of the military leaders.

But in a democracy in which the welfare of the masses, not the privileges of an autocratic group, is of first consideration, the argument in favor of a high birth-rate and a very dense population loses much of its attractiveness. The quality, rather than the quantity, of the population is placed in the foreground. The question of "who" is more important than that of "how many." Quality counts. In a democracy, it is essential that the population shall not be so great that the common man can have only a small share in the benefits of technical advance and of civilization. A large number of poor, ignorant, improperly nourished, and incapable citizens are a menace to a democracy. A democratic form of government can be highly successful only when its citizens are intelligent and not too dissimilar in wealth and opportunity.

A study of the composition of the people of a city, a state, or the nation involves political and social as well as economic considerations. America has often been called a melting pot. To our shores have come great mixtures of peoples, — English, Irish, German, Jew, Italian, Pole, Swede, Norwegian, Negro, Chinese, and many others. Are the elements too

diverse? Is Americanization going on effectively? Wave after wave of immigrants has come to our shores. These newcomers leave their homeland because of adverse economic or political conditions, hoping to find a land of promise in America. They are, as a rule, accustomed to a low standard of living and are willing to accept a low wage. In recent decades, the great mass of immigrants come from Southern and Southeastern Europe and enter into manufacturing, mining, and construction work as wage earners. The recent immigrants are doing a large share of the rough, hard, distasteful kinds of work. They huddle together in certain districts of our cities and towns in which the housing and sanitary conditions are undesirable. And here they have been too often neglected or exploited by the remainder of the community. Since the opening of the war in 1914, the influx of immigrants has been very greatly reduced; and the war has emphasized the need of better treatment of the recent immigrants in order that they may become Americanized and unmistakably loyal to their adopted country.

The Negro Problem. The Negro in the United States has given Americans a very difficult problem to solve. Like the immigrant, the Negro is a low-standard-of-living worker; but the wide difference in race and color between the white and the colored people makes the Negro problem much more complex than that of the Americanization of the European immigrant. White workers dislike to work with the Negro, white householders dislike to have the blacks for neighbors, and the white traveler wishes the blacks to ride in a separate compartment. It is indeed difficult for a depressed race just emerging from slavery and still in the depths of poverty and as yet unblessed by many of the traits which make for

health, honesty, and regular industry, to receive fair treatment from a group of very different, more efficient, and more masterful men. But certain it is that the problem can only be solved through the exercise of forbearance and square dealing. Harshness and unfair treatment only aggravate the difficulty and delay the day of final solution.

The Negro was brought to this country because short-sighted landowners saw an opportunity to make immediate gains through the use of a cheap and docile labor force. They ignored the difficult problems certain to result from the presence of a labor force of that type. Until the opening of the present century, the Negro problem was almost entirely a problem of the cotton belt of the South. But in recent years a considerable stream of Negro laborers has been flowing into the cities of the North. As a consequence our social problems in the North will be further complicated by the presence of the black race.

TOPICS FOR DISCUSSION

1. According to the Census Reports, what was the population of your State in 1860, 1870, 1880, 1890, 1900, and 1910?
2. What was the population of your city or town in 1900 and 1910? What is its estimated population to-day?
3. How many different nationalities are found in your community?
4. How many Negroes are living in your community? What kinds of work are the Negroes performing?
5. Are workers leaving your town or city for other communities? Why?

CHAPTER IX

COMPETITION AND MONOPOLY

Commodities are produced for the markets of the world under conditions of competition or of monopoly or more accurately of some combination of the two. In the business world there exists no case of perfect competition and few cases of complete monopoly; such conditions obtain chiefly in the mind of the economic theorist. Practically all marketable commodities are produced under conditions in which both competition and monopoly play some part. The term, "competition," as used to-day means economic rivalry among producers, among purchasers, and between producers (sellers) and purchasers, tending to fix the market price of some economic good or service. In this sense of the word, competition did not bulk large in ancient or medieval times; custom and public authority were the potent instrumentalities in fixing wages and prices. And, indeed, competition is at the present time growing less and less influential as a price-fixing force; monopoly and governmental authority are on every hand interfering with the free play of competition. But competition in the broader sense of personal rivalry is old and does not seem likely to vanish. Every producer (seller) of commodities is anxious to gain advantages for himself; and each purchaser is likewise desirous of getting the greatest possible return for his or her expenditures of purchasing power. Under competitive conditions each seller and each buyer is checked and restrained by the presence, actual or potential, in the market of other sellers and buyers.

Regulated Competition. Competition in the business world is always regulated in some degree. Unrestrained competition of the "tooth and claw" or the "jungle" type, competition to the death without any restraining rules or regulations, no longer obtains. In fact, such competition has probably never existed in human society. It would be much like playing a game without rules. Competition takes place to-day under the restraint of law, private property, inheritance, family relations, custom, etc. Even war is subject to certain international regulations. Regulation of competition does not mean its elimination; regulation modifies the conditions or the level of competition. An illustration from another field may help the student to see the point clearly. Cultivation is the regulation of competition in the vegetable world by agriculturalists. The fierce competition of the hardy weed is in a measure removed; but the competitive principle is retained on a different and higher level. The wild grape is a product of unregulated, "jungle," competition; the Concord, of regulated competition. The rules of a game on the athletic field bar certain forms of rivalry; but competition and rivalry actively continue within certain well-defined limits. The football player may not slug his opponent or carry the ball after it is "down"; but no one who witnesses a football game doubts that, within prescribed limits, active rivalry and competition are found on the football gridiron. "Fair" competition takes place under regulation, according to the accepted rules of the business game. Monopoly and special privileges tend to eliminate rivalry, or to give unfair advantages to the favored few unless carefully regulated in the interests of the community.

Under competition with several sellers and several buyers

the long-run or steady prices tend to equal the expense of producing the commodity. In the expense of production are included profits equivalent to wages of management. But the prices on the market often fluctuate greatly above or below the steady or normal price, — as, for example, the price of strawberries late Saturday night is often very low, much lower than the expense of producing the berries or the normal or long-run price. However, there are very few cases of free competition. The retail merchants in a given town, nominally competitors, make tacit or actual agreements as to prices. The milkmen of a city raise their prices is unison as if they belonged to one firm. Agreements and combinations are found in so many and so varied forms that free competition is practically an historic phenomenon. Almost everywhere along the line from the producer to the consumer, competition is checked and stifled.[1]

As competition means a minimum of profits, business men are constantly trying to escape the full pressure of competitive forces, by agreements, by combinations, and through monopoly. Monopoly power signifies the ability to restrict the output of the product monopolized and as a consequence the ability to regulate the price at which it is sold. As soon as competition is partially eliminated, business men endeavor to fix prices not at the expense of production but at prices "which the traffic will bear." The price of a commodity controlled by a strong and fairly permanent monopoly will be that which will give the highest net returns or the greatest monopoly profits. This monopoly price is not always a high price because raising the price as a rule reduces the number of articles sold. A large profit on each of a small

[1] Some critics will hold that this statement exaggerates the absence of competition.

number of articles may be less than a smaller profit on a much larger number of sales. In case the monopoly power is not considerable or stable, prices may be fixed somewhat below what will give the highest profit or what the traffic will bear. One or more of several reasons may determine the policy adopted. The business men joined together by agreements or combinations may fear that new competitors might come into the field if too large profits are received, and thus "spoil" the market; it may be possible to get satisfactory substitutes for the particular commodity; or government intervention may be feared. Consequently, a monopoly or a semi-monopoly may not exact all that is possible from the purchasers; but the ideal price from the seller's point of view is always "what the traffic will bear." A successful monopolistic business will bring more profits with the same outlay for wages, capital, and management than will a competitive business of the same type. This added return is called monopoly profit. It is paid for by the consumer (final purchaser) of the product; monopolistic price is higher ordinarily than competitive price.

The partial and, in some cases, the complete elimination of competition is not wholly an evil. Competition often leads to unnecessary and wasteful duplication of plants and of labor power. There are usually too many grocery stores in a small city for efficient service. Two or three milkmen delivering on the same street for different companies is an inefficient method compared with the method of delivering mail. Two gas plants in one town produce gas in a wasteful manner; one plant would be much more economical. Competition has led in many instances to adulteration of products and the use of inferior articles in filling a contract. Competition means a dearth of profits; and a business man is in

business primarily for profits. On the other hand, while partial or fairly complete monopoly may possess certain advantages in economical operation over competition, unless effective regulation intervene these savings will go to the monopolist rather than to the consumer. Neither unregulated competition nor unrestricted monopoly can longer be tolerated by society.

Classification of Monopolies. Monopolies are of many different types; several classifications of monopolies have been made by students of the monopoly problem. Monopolies are either public or private. A public monopoly is owned and operated by some governmental unit, — national, state, or local. The American post-office system and a municipal water plant are examples of public monopolies. Such monopolies are operated primarily not for profits but for the benefit of the community. A private monopoly is operated and owned by an individual or by a private corporation. In the case of the private monopoly, the profits go into the pockets of private individuals.

Monopolies may also be conveniently classified as social or natural. Social monopolies rest upon some special privilege granted by the government or by some other monopoly. Patents and copyrights are familiar examples of a social monopoly resting upon a specific grant by the government. Certain businesses have been monopolized by governments. The tobacco monopoly of France and the old salt monopolies of European states are social monopolies. A few decades ago certain monopolies were established and maintained by rebates from railroads. A natural monopoly depends upon forces which develop independently of the will of human beings. The anthracite coal of Pennsylvania is produced under conditions of monopoly due chiefly to the

restricted area in which this important product is found. Railways and municipal utilities furnish examples of natural monopolies. The reasons why both railways and municipal utilities are naturally monopolistic businesses will be discussed in a later chapter.

Examples of Natural Monopolies. Anthracite or hard coal is a well-known fuel which is used for heating or cooking in from one-fourth to one-half of all the homes in the United States. Practically all of the anthracite coal deposits of the nation are found in Northeastern Pennsylvania. At the present rate of mining the supply of anthracite coal is sufficient to last for approximately a century or until 2020. The anthracite coal fields to which so many men, women, and children of America look for warmth in the cold weather of winter are owned and the coal is mined by a small group of allied companies. These companies have been able to fix the price of coal at such a figure as will give them large profits. If these allied companies fix a high price for the coal which you wish to put in your coal bin, no other companies can offer to sell the coal to you at a lower figure. No other important companies are mining anthracite coal. This enormously valuable mineral, a gift of nature as much as is air or sunlight, is owned and its price fixed by a few men, not by the majority of the men and women of America. And the monopoly profits go to a few fortunate individuals.

The Standard Oil Companies and affiliated corporations bearing other names constitute a partial monopoly in the business of refining crude oil. There are some competitors, but the Standard Oil group of companies dominates the situation. It is a refiners' monopoly controlling a large percentage of the output of the refineries of the United States. Only a comparatively small number of oil wells are owned

by the Standard Oil interests. The great organization has been built up through efficient management, rebates granted in the earlier part of its career by railways, and by means of the control of pipe lines through which the crude oil is pumped from the wells to the refineries. Crude oil can be pumped in pipe lines belonging to the Standard Oil companies from Oklahoma to the Atlantic seaboard. Enormous profits have been made by the Standard Oil interests; dividends of 40 per cent or more have not been uncommon. Mr. J. D. Rockefeller, the founder of the Standard Oil Company, is probably the richest man in the world. The control of an important natural product such as petroleum enables the owner of the monopolistic organization to reap large returns; but the consumers must foot the bill.

One of the best examples of monopoly through the control of patents is offered by the United Shoe Machinery Company. This corporation owns patents on various machines used in the manufacture of shoes. The company makes the machines. Instead of selling them to shoe manufacturers, it is the practice of the company to lease the machines. The contract signed by the shoe manufacturer obliges him to use the machinery of the United Shoe Machinery Company exclusively. Like the Standard Oil Company, this corporation has made large profits.

TOPICS FOR DISCUSSION

1. Are farmers competitors? Storekeepers?
2. Does your family purchase any articles produced under conditions of monopoly?
3. If you were a monopolist, how would you determine the price of the monopolized article sold by you?
4. What is the attitude of men in your community toward monopolies?
5. Do they favor competition in all lines of business activity?

PART III

ECONOMIC PROBLEMS

CHAPTER X

MONEY AND BANKING

Money Is a Measure of Purchasing Power. Since at the present time, practically all workers work for wages, salaries, or fees, it is necessary for them to purchase the commodities which they and their families consume, with the wages they receive. This exchange is ordinarily consummated by means of money. The worker is paid in money and pays in money for the articles which he decides to purchase. Money is a tool which easily enables persons to exchange their services or their products for the services or the products of others; it facilitates the exchange of commodities and services for other commodities and services.

In reality, money is wanted only because it enables the possessor to get the goods and services which he wishes to consume. Money is a measure of purchasing power; it is a representative of other goods. Obviously, money cannot be consumed; a man with plenty of money isolated on a desert island would starve to death. We really do not want money; it is the commodities which money will enable us to purchase which we actually desire.

Metallic Money. The early forms of money were commodities which many members of the community desired. Sundry articles such as shells, cattle, furs, tobacco, and salt, have been used for money in times past. But in recent generations the metals have been selected as the money of

the world; and gold is now the most important form of money. Gold is easily recognized; it is durable and homogeneous; gold can be divided into such forms as may be desired; and it is fairly stable in value.

Coinage. The minting of money from bullion is a public business. Our money is minted at the mints established by the federal government. The milled edges and the designs stamped on both faces of the coin are intended to prevent clipping and " sweating " of the coins by means of which a portion of the valuable coin is removed by dishonest persons. The government certifies to the weight and the fineness of the coins which it issues.

In addition to gold coins, our government issues other forms of metallic money, — the silver dollar, half-dollar, quarters, dimes, five-cent pieces, and pennies. Gold is called standard money; the other forms of metallic money are called token money. Gold is admitted to free coinage, that is, gold bullion of the proper fineness may be exchanged at the mint for the same weight of coined gold. The gold in a gold coin, if the coin be melted, would still be worth practically the same as in the form of a coin. The bullion in the silver dollar and other smaller coins sells for less than the face value of the coin. Silver is not admitted to free coinage. The government mints enough of the token money to supply the needs for small business transactions. Token coins circulate at their face value even though the bullion in them is worth less, because token money is redeemable at any time in gold. The Treasury Department will give, for example, a twenty-dollar gold coin for twenty silver dollars, or eighty quarters.

Paper Money. In the United States in addition to metallic money there are several kinds of paper money in cir-

culation, — gold certificates, silver certificates, United States government notes (greenbacks), national bank notes, and federal reserve bank notes. The national bank and the federal reserve bank notes are issued by banks connected with the national banking system and will be described later. A gold certificate is circulated instead of a certain gold piece which is deposited in the Treasury of the United States. Its use saves the wear and tear upon the valuable gold coin. A silver certificate is a paper substitute for silver deposited in the Treasury. The United States government notes, familiarly called greenbacks, are merely promises to pay, not bearing interest, issued by the federal government. The number that may be issued is limited by law to approximately $347,000,000. The greenbacks are, like token money, kept at par because the government will redeem them at any time in gold. The Treasury Department keeps a reserve in gold for this purpose. This reserve is ordinarily kept at about $150,000,000.

Credit. Credit is the second great tool of exchange. This was not fashioned until long after money was first used. In fact, the extensive use of credit is of comparatively recent origin, and is a sign of a highly organized industrial system. When commodities or services are exchanged for money, the transaction is closed by the transfer of goods and money; but when credit is used the time element enters. The person receiving the services or commodities promises to pay for them at some future date, usually in money. In the meantime, in the typical case of borrowing, purchasing power is placed by the lender in the hands of the borrower. For example, Mr. A loans one hundred dollars to Mr. B for one year; B promises to return the one hundred dollars plus an additional amount called interest.

In reality, when money is said to be borrowed, the real borrowing is that of purchasing power. When A loans the one hundred dollars to B, the latter obtains the right to use purchasing power to the extent of the loan; and A gives up that right until some future date. Business men of all types borrow purchasing power. With it they are able to build factory buildings and machines, and obtain the raw materials and other supplies needed in carrying out their business plans; and the lenders lose temporarily the right to use this amount of purchasing power.

Banks. The business of a bank is to deal in credit. It also acts as a safe place of deposit for surplus funds. Instead of each person putting his funds at night under the pillow, in the cash drawer, or in a private safe, the cash may be deposited with the bank and the right to draw out the money as needed, acquired. A business man usually deposits each afternoon before the bank closes, the greater portion of his receipts for the day. The amount of this deposit will be added to his account with the bank, that is, to his deposit in the bank. He will pay his bills by drawing checks upon the bank. His check orders the bank to pay a certain sum to the order of his creditor. When these checks reach the bank, the amounts called for are paid and deducted from the business man's deposit. In this way checks take the place of money and economize the use of gold and silver. A draft is a bank's check. It is an order of one bank to another to pay a sum of money to a third party. The first bank has a deposit in the second bank corresponding to the deposit the business man has in the bank upon which he draws a check.

The business man also utilizes the bank in another way. A manufacturer has just shipped his products to a distant

purchaser. The selling value is $10,000; and the purchaser will not pay for the goods shipped to him for, say, ninety days. But the manufacturer needs to pay certain bills now. He takes the bill of lading issued by the railway company to the bank and draws an order making the $10,000 payable to the bank at the expiration of ninety days; and the company to which the shipment was made, "accepts" the order. The bank then adds to the manufacturer's deposit with the bank, $10,000 minus the interest or discount charged by the bank, — say, $150. The manufacturer can now pay his bills by checks drawn upon his account. The bank has manufactured credit to the amount of $9850. Other forms of security or of commercial paper, such as a note accompanied by adequate securities, are also accepted by banks for discount. The transaction just outlined is typical of the business of a bank. The bank makes its profits very largely by discounting commercial paper of various kinds.

In order to make the business of banking clear to the student, it is convenient to consider the organization and business of a small bank. A bank requires capital or resources to start with just as does a steel plant or a furniture factory. A group of men take shares of stock in the bank which is incorporated. The shares are usually one hundred dollars each. If the number of shares be one thousand, the capital paid in by the stockholders and available for business would be $100,000. The liabilities of the bank would be $100,000 owed to the stockholders, and the resources $100,000 in cash. After the manufacturer mentioned in the preceding paragraph comes to the bank with his commercial paper, the resources and liabilities would be scheduled in the following manner: —

Liabilities		*Resources*	
Capital	$100,000	Cash	$100,000
Profits	150	Loans	10,000
Deposits	9,850		
	$110,000		$110,000

If the manufacturer wishes to receive a portion of the total, say $5000, in cash, the statement would be changed. It would then read as below.

Liabilities		*Resources*	
Capital	$100,000	Cash	$95,000
Profits	150	Loans	10,000
Deposits	4,850		
	$105,000		$105,000

Profits are scheduled as liabilities because this sum is considered as owed by the bank to its stockholders. The bank owes the amount of its deposits to the depositors. Loans are resources because presently that sum will be paid to the bank. The cash on hand which a bank keeps is called the reserve. After a bank has been established and has done business for some time, the reserve is usually fifteen per cent to thirty per cent of its deposits. A bank " makes money " by loaning its capital and credit. If it keeps an unnecessarily large amount of cash on hand, a part of its capital is idle and is making no profits for the bank. Ordinarily a bank can safely loan out all of its funds except a comparatively small percentage of its deposits because, except in emergencies, on any one day only a small amount of cash is demanded by its customers. A " run on the bank " means that for some reason a large number of depositors suddenly demand cash. And, although the securities held by the bank may be good, unless the bank can get cash from some other bank, it may be forced to close its doors and go into the hands of a receiver.

The Clearing House. Since checks are used very largely by business and professional men to pay their bills, deposits made in bank A often contain checks drawn by individuals having deposits in other banks. Likewise, other banks will each day receive checks drawn upon bank A. In small towns a clerk may be sent from bank B to bank A with all the checks deposited that day in bank B drawn upon bank A. He will in turn receive all the checks deposited in bank A drawn upon bank B. If, for example, the total amount of the checks drawn on bank A in bank B is greater than the amount of the checks in bank A drawn on bank B, bank A will pay the difference in cash or its equivalent to bank B. In large cities, this daily settlement is made in a clearing house. At an appointed hour a representative of each important bank in the city goes to the clearing house with the checks which his bank has received drawn upon other banks. An exchange of checks takes place and the balances are settled at the clearing house under the supervision of the authorities of the clearing house.

Banks in the United States. In the United States, the chief forms of banks are: federal reserve banks, national banks, state banks, savings banks, private banks, and trust companies. The first two are organized and operated under federal laws and are subject to federal control and inspection. The remainder are subject to more or less supervision by state authorities. The national banks and the federal reserve banks may under definite regulations issue paper money. Other forms of banks in the United States do not issue paper money. The national banks and the state banks do the ordinary commercial business which has already been explained. There are twelve federal reserve banks in as many districts into which the United States has been divided for

this purpose. Every national bank is obliged by law to own stock in the federal reserve bank of its district; and part of its reserves are placed in the reserve bank. Certain state banks may also become " member banks " of the federal system. A federal reserve bank does not accept the deposits of individuals nor loan to individuals. It is a bank's bank. The federal reserve bank may rediscount good commercial paper discounted by a member bank. If a member bank finds its reserves so low in respect to its loans that it is unwise to make further loans, the bank may send part of its securities to the reserve bank. The reserve bank will rediscount the securities and send the bank money for the securities. With the money thus obtained the bank increases its reserves and will then be able to accommodate more customers who wish loans. The federal reserve banks and the national banks are under the control of a Federal Reserve Board of five members appointed by the President. In addition to the five appointed members, the Secretary of the Treasury and the Comptroller of the Treasury are *ex officio* members.

Savings banks do not carry on a commercial banking business; but many commercial banks, state or national, have savings departments. Savings banks receive deposits of small savings, and reinvest them in long-time securities. Savings accounts are not as a rule subject to check. Only a small percentage of reserves is kept against the deposits of savings banks. A savings bank is not really a bank; it is an institution for the profitable investment of the combined savings of many individuals. Trust companies were originally organized to take charge of trust funds and to act as administrators of estates; but many perform also the functions of both savings and commercial banks. Private

banks are unincorporated banks. Private banks are usually not as carefully regulated and controlled by state officials as are the state banks.

Paper Money Issued by Banks. Before the Federal Reserve Act was passed in 1913, the only paper money issued by American banks was national bank notes. The federal reserve banks now issue federal reserve notes. A national bank could issue paper money only after depositing with the Comptroller of the Treasury at Washington, United States bonds equal to the amount issued. A bank, however, could not issue paper money to an amount exceeding its capital. The bank was also required to deposit with the Comptroller an additional amount in cash equal to five per cent of the bank-note issue. Each dollar of paper money issued by the bank was therefore protected by an equal amount in government bonds, plus five cents in cash. In case a national bank failed, the holders of its paper money lost nothing. The Comptroller sold the bonds on deposit and redeemed the bank notes issued by that particular bank.

National bank notes, as well as the forms of money issued directly by the United States government, were said to be inelastic. The amount issued and in circulation did not vary much from time to time during the year. However, at certain times in the year, in the autumn, for example, more money is needed in circulation than at other times. In 1908, an act was passed for the purpose of giving some elasticity to the monetary system; but it accomplished very little. The Federal Reserve Act of 1913 had as one of its important objects that of giving the needed elasticity. This is accomplished by allowing the federal reserve banks to issue federal reserve notes upon the security, not of government bonds, but of the rediscounted commercial

paper which these banks have received from member banks. The payment made to member banks for the securities offered for rediscount may be made in the notes thus issued. For example, a national bank in Detroit sends $50,000 of acceptable short-time securities to the Federal Reserve Bank in Chicago to be rediscounted. The Federal Reserve Bank may now issue an additional amount of paper money, federal reserve notes, upon the rediscounted paper as security. A reserve bank may also issue notes upon other assets or resources of the bank. A gold reserve must be maintained to provide for the redemption of the paper money issued by the bank; and provisions are made for retiring the notes from circulation when less money is needed. In this manner, our currency has been given a desirable degree of elasticity. It is expected that sooner or later the national banks will cease issuing paper money. The new bonds issued in 1917 and 1918 cannot be used as the basis of national bank-note issues.

SUGGESTIONS TO TEACHER

Obtain a blank check and several canceled checks.

Also, a draft.

Get a statement of resources and liabilities from a bank or out of a newspaper or financial journal. Discuss.

Show different kinds of United States money.

CHAPTER XI

FORMS OF BUSINESS ORGANIZATION

The Nature of Business. Business in its many forms is carried on primarily to make profits or, according to popular phraseology, to make money. The average business man works hard in order to make profits. He is interested in producing commodities for the consumer only in so far as by producing goods he can add to his profits. If, by producing or selling a smaller quantity of commodities, larger net profits can be made than by producing or selling greater quantities of commodities, the former method of procedure will normally be followed. In short, the business man is particularly interested in buying and selling, in profits and prices, in contracts and credits; he is interested only as a means to an end, in the technical processes of manufacturing or of mining, or in the plans for easing the burdens of the wageworker. The business man is not, however, superlatively selfish; he is quite like other members of the community. But "business is business"; it is not play nor philanthropy. The business man is busily engaged in getting a living and more for himself and his family.

Consumers desire large quantities of commodities produced and marketed; they demand low prices, which often mean a dearth of profits. The divergent points of view of the producers and the consumers of a given product can easily be illustrated out of the experience of the student. For example, if you are engaged in the poultry business, you are pleased when the price of eggs rises and your profits

increase. However, you wish the price of feed for the poultry to remain low. And as a small business man selling eggs, you would prefer to sell eggs at fifty cents a dozen when your hens were laying few eggs per week rather than at twenty cents a dozen even though your hens were laying twice as many eggs per week. But, on the other hand, if you must buy eggs from your neighbor or the grocery store, you are not displeased to learn that the number of eggs on the market has increased and as a consequence the price has been reduced. This simple illustration throws considerable light upon the processes of the business world and upon the aims of the business man and of the consumer.

The Single Enterpriser. The business world is composed of various forms of business organizations or profit-seeking units. The chief forms are the single enterpriser, the partnership, the corporation, the coöperative establishment, and governmental enterprise. The simplest kind of business organization is the single-enterpriser form. One individual is responsible for the business. He is the sole owner; and he usually manages the business himself. The single enterpriser may or may not hire others to work for him. Nearly all American farms are single-enterpriser establishments; and many small retail stores and small shops are also of this type. The owner is directly responsible for the debts of the business; his liability is said to be unlimited. All the property he possesses may be seized in case of business failure. Only small kinds of businesses, not requiring large amounts of capital, are suitable for this form of business organization.

The Partnership. Two or more individuals may associate together to form a partnership. The members of the partnership or firm are each personally responsible for the debts

of the firm. Each partner is usually placed in charge of the part of the business for which he is specially qualified. More capital can be obtained than by the single-enterpriser form. The partnership is found in many mercantile and professional businesses. Up to the time of the Civil War, the single-enterpriser and the partnership were the most important forms of business organization. In recent years, the growing size of the business unit has caused the corporate form to become predominant in the American business world.

The Corporation. Because of its great importance, careful consideration must be given to the corporate form of business organization. About four-fifths of the value of all our manufactured products are produced by corporations. All of our railways and nearly all of American banks, insurance companies, and important mining companies, are operated by corporations. Big business is to-day managed by corporations.

The corporation is created by governmental action. A corporation is organized by granting a charter to a group of persons. In the United States, charters are granted by the state governments; and the laws of the various states differ considerably in regard to incorporation. Legally considered, a corporation is an artificial person; it may make contracts, sue, and be sued as may a natural person. The persons, similar to partners in a partnership, connected with a corporation are called stockholders. When the corporation is organized and its charter granted, it issues shares of stock. These shares are usually of the par or nominal value of one hundred dollars each. If the capitalization is placed at $100,000, 1000 shares would be issued. A stockholder may own one or many of these shares. The

original stockholders do not always pay full or par value for their stocks. In that case the stock is said to be "watered." If the 1000 shares of the corporation mentioned above were sold to the stockholders at $50 each, the actual capital of the corporation would be $50,000 instead of $100,000, — the par value of all the stock. The stock would, under these conditions, be fifty per cent "water." The stockholders elect certain of their number to be directors of the corporation. In voting for directors, each stockholder is allowed as many votes as he owns shares. The directors select the president and other important administrative officers. In case the corporation fails, a stockholder is financially liable only for the amount paid in to obtain his shares. His other property cannot be taken to pay the debts of the corporation. In this respect the corporation differs from the partnership.

Bonds. Very often corporations obtain part of their capital by issuing bonds. A bond is a mortgage on the property or the income of the company. In this country, it is almost invariably a mortgage on the property. A bondholder, unlike a stockholder, does not have a voice in choosing directors or in determining the policy of the corporation. A bond, however, draws a definite rate of interest. This interest must be paid before any profits may be paid to the stockholders, that is, before dividends may be declared and paid. If the interest is not paid, the bondholders may ask a court of proper jurisdiction to declare the company insolvent, and to place the business in the hands of a receiver. The receiver will either close up the affairs of the corporation and pay as far as possible the creditors including the bondholders, or he may operate the business until it is on a firmer financial basis. In the latter case,

sooner or later the stockholders will again obtain control of the business.

In the case of a corporation manufacturing automobiles, from the total or gross amount received for the automobiles sold in a given year must be deducted the expenses of operating the plant, — wages, raw material, fuel, and the like. Interest on the bonds, taxes, and insurance must also be paid. After the current expenses are paid, an amount must be set aside for repairs and depreciation due to wear and tear upon the equipment of the plant. After all these deductions have been made from the gross income, the remainder, if such there be, belongs to the stockholders. It may all be divided among them in dividends in proportion to the number of shares owned by each stockholder; or, as is usually the case with corporations whose financial standing is good, part may be held by the company as a surplus, and dividends declared out of the remainder only. The surplus may be used to enlarge the plant or for investment in other businesses.

The income from investments in bonds is small but comparatively certain. The income derived from the ownership of corporation stocks is much more uncertain. It may be considerable; but, if no profits are made, dividends cannot be declared. The interest rate is always specified in the bond; but there is no definite dividend rate. However, certain stocks called preferred stock bear a definite dividend rate, provided sufficient profits are made. The remaining surplus, if any, may be paid to the holders of common stock.

Since a very large portion of the business of the nation is performed by corporations, it may be inferred that the corporate form of business organization is superior in certain important respects to the single-enterpriser form or the

partnership. The corporation continues although its original stockholders die or sell their shares to others. Under similar conditions a reorganization of a partnership would be necessary. The corporation can easily get large amounts of capital from many sources. The liability of a stockholder is limited to the amount paid into the treasury of the company. Lastly, it is comparatively easy to change the officers and managers of a corporation.

One of the chief disadvantages of the corporate form of business management grows out of the fact that very few of the many stockholders of a large corporation take an active interest in the affairs of their company. They are satisfied if dividends are regularly paid. Many stockholders of western railways, for example, have never seen the road of which they are part owners. Much of corporation ownership is absentee ownership. Again, many corporations secured their capital very largely by the sale of bonds. The stock represents little or no money actually paid in. The stock is "watered." The company hopes, because of some unusual opportunity, to make large profits and to be able to pay dividends upon stock which represents no actual investment. The bondholders who have furnished the capital have no voice in the management of the business. The organizers or promoters of the corporation who have paid nothing for their stock control the business and may reap unusually large returns. On the other hand, if the project proves to be a failure, they have lost little or nothing. Other abuses or disadvantages of the corporation exist.

The Trust. Large corporations or combinations of corporations, having some measure of monopoly, are called, in popular language, trusts. The word, "trust," used in this manner cannot be accurately defined. The Standard Oil

Company and the United States Steel Corporation are often called trusts. The latter company owns the stock of many subsidiary companies; it is a combination or a group of corporations. Trusts or large combinations arise in order to secure the advantages of large-scale business and to stifle competition, thus enabling the trust in some degree to limit output and control prices. In so far as combination means efficient production and the elimination of waste, it is desirable; but in so far as it leads to monopolistic control, higher prices, and extraordinary profits, competition is undesirable from the point of view of the consumer.

The American people are quite definitely committed to the policy of regulating trusts. The federal government and nearly all of the forty-eight states have passed anti-trust legislation. The earlier acts aimed to smash trusts and to force a return to the earlier form of small-scale business. These laws have not fulfilled their mission. Recent legislation recognizes the unmistakable trend toward large-scale or "trustified" business, and attempts to prevent "unfair" methods of crippling small competitors. The Federal Trade Commission, established in 1914, has the power to investigate the affairs of large industries doing an interstate business, and to require reports from such corporations. The Commission also has been given the authority to issue orders restraining a corporation from using "unfair methods of competition in commerce." In a considerable degree, the Commission has the power to determine what are and what are not "unfair" competitive methods.

Coöperation. This form of business organization is a marked departure from the three forms which have been considered. In a manufacturing plant operated under the coöperative plan, the workers in the industry would control

the plant and choose the managers. Each worker would have one and only one vote. The capital necessary would be furnished by the workers or borrowed from outside parties. The profits or " savings " are divided among the workers or coöperators. This form of coöperation has had very little success up to date. The coöperative store has attained greater success. The purchasers join together and control the store. Each purchaser or coöperator has only one vote. Herein, the coöperative establishment differs radically from the corporation. The coöperative establishment is a democratic form of business organization.[1]

Governmental Enterprise. Various governmental units in this and other countries manage certain business enterprises. Ordinarily such enterprises are not carried on for profits. The aim is to keep rates low, pay fair wages, and provide good service. In this country, a large percentage of the city water plants are owned and operated by the municipalities. Many gas and electric lighting plants are also under municipal management.[2] The federal government operates the mint and the post-office. Over one half of the steam-railway mileage of Europe, Asia, Africa, and Australia is owned by governmental units; but on the American continent private ownership of railways is almost universal.

[1] Coöperation is discussed at greater length in the chapter on Methods of Paying for Labor.

[2] See also the chapter on Municipal Monopolies.

CHAPTER XII

RAILWAY TRANSPORTATION

The Importance of the Railway. Regular, rapid, and safe means of transportation is essential to modern complex civilization. Interstate and international trade, minute division of labor, world markets, and great corporations are dependent upon excellent means of communication and transportation. Railways are, indeed, the arteries of the business world. Stop the movement of the freight trains, and business activities stop also. Thanks to the railway and the steamship, different parts of the nation and of the world can exchange products, and men are no longer restricted in their consumption to the products of the locality in which they live. The manufacturing city gets its food supply with the aid of the railway and steamship from distant Dakota, California, or Cuba; its iron ore from the Lake Superior district and its cotton from the South.

The political significance of transportation as well as its industrial or economic importance cannot easily be overemphasized. The modern nation is literally tied together by the heavy steel rails of the railway and the wires of the telegraph and the telephone. The steamship, the submarine, and the airship are eliminating the isolation caused by the ocean. The World War has conclusively proved to the American people that we can no longer live in political and economic isolation from the rest of the world.

The railway industry is one of the largest in the United States. Nearly two million workers are employed by our

railways. It is probable that twenty billion dollars are invested in the American network of railways, — approximately equal to the amount invested in manufacture. Over one third of the railway mileage of the world has been built in the United States. Because of its magnitude, and its economic and political importance, the railway problem is one worthy of careful investigation.

Growth of the American Railway. The pioneer American railway using the steam locomotive was the Baltimore and Ohio. Construction work began in 1828; and thirteen miles were completed in 1830. The mileage of the American railways has increased rap dly. In 1860, the total mileage had risen to over 30,000; in 1880, to over 93,000; in 1890, to over 163,000; in 1910, to 240,000; and in 1914, to 252,231. The first railways were short; and, as different widths of track were used by different roads it was impossible to transfer cars from one road to another. A standard gauge was soon adopted; and the consolidation of companies followed. In 1915, five large groups controlled over one half of the railway mileage of the United States The largest of these groups, "the Union Pacific Southern Pacific interests," controlled 34,500 miles, — a total greater than the mileage of all American railways when Abraham Lincoln was inaugurated President of the United States. Under the pressure of the exigencies of the war in 1917, the railways were operated practically as a unit. This step may point the way toward permanent unification of the railway business under one control, private or public.

The Railway Is a Monopolistic Business. The railway, the telegraph, public utilities, such as water, gas, and electric lighting plants and street railways, and possibly the telephone system, have certain common characteristics. These busi-

nesses may be classified as monopolies of organization. With the possible exception of the telephone, the expenses of operation per unit of service tend to decrease as the amount of business performed increases. In each, the amount of fixed expense is considerable. A railway must have its rails, roadbed, depots, and signaling devices whether few or many trains are operated each day. It also costs very little more to run a train of well-laden cars than it does to run a shorter train containing many empty cars. Certain expenses are almost independent of the number of trains operated per day or of the number of cars per train. It has been established by competent authority that two thirds of the total expenditures of a railway are for fixed expenses, and only one third for expenses which vary with the traffic.

The manager of a business of decreasing costs and large fixed expenses is peculiarly tempted to get more business. If one railway parallels another, each manager will strive to get all the traffic he can. Unless regulated by the government, rate cutting will follow. It is to the advantage of the railway to get more traffic even though additional business pays little more than the added cost of carrying it. A simple example from a transportation business having a smaller percentage of fixed expenses than the railway, will illustrate the problem of the traffic manager. Suppose that two men A and B are each transporting butter and eggs by motor-truck from a rural district to the neighboring city. Neither one is able to obtain a full load each day. A finds that farmer X who patronizes B is sending an amount each day which, if added to A's load would give the latter all he could readily carry. A secretly cuts the rate or gives a rebate to X, and gets the traffic. It costs A but little more to carry the additional load, as his truck is making the trip daily.

B loses the traffic and finds his load still further reduced. He, in turn, secretly cuts rates and thus obtains some of A's customers. Presently a fierce rate war is on. Butter and eggs are carried at very low rates. Both truck-men lose. Presently, they make an agreement in regard to the division of the traffic and rates are raised. Or, perhaps, one sells out to the other. This course of events has been followed in the railway business. Competition of parallel lines is wasteful and futile. Unrestricted and unregulated competition soon leads to agreements and to combinations, — in short, to monopoly.

The railway having large fixed expense and being a business of decreasing expense of operation, is, therefore, an industry in which the manager is subjected to temptations which do not greatly affect the manager of a grocery store. Extra business implies larger profits; and the manager is often tempted to give special favors to get shipments over his line. On the other hand, the law now requires the railway to treat all shippers alike. The special favors or discriminations which railway managers are tempted to offer are personal, place, and commodity. The illustration just considered was one of personal discrimination. Sometimes large shippers have forced discriminations in their favor by threatening to send all of their shipments over another route. The traffic manager was driven to discriminate in their favor or lose the traffic.

Place discrimination consists in giving more favorable rates to a town, a city, or a district than is given to other towns, cities, or districts. If two sections of the country are producing the same products for the market, rates slightly discriminating in favor of one section will make it easy for that section to undersell its competitors. The favored district

will be prosperous; the others will feel the pinch of hard times. Unregulated railways have the power to build up or to destroy a city by fixing freight rates.

The other side of the problem must not, however, be overlooked. If a town or a district has the option of sending its products by water as well as by rail, the railway must lower its rates to and from that district or lose much of the traffic. And, because of the high percentage of fixed expenses, it is more profitable to get the traffic from the seaport town at low rates paying more than the variable expenses, than it is to lose the traffic. It may even be to the advantage of the inland towns discriminated against. But, of course, not all place discriminations are justifiable. The Interstate Commerce Commission has held that some place discriminations are justifiable.

Discriminations in regard to commodities are encouraged under governmental regulations. All railways have intricate classifications of freight. Goods which are valuable are classified higher and pay higher rates per mile than cheap and bulky products. Such articles as grain, coal, iron ore, and gravel are charged low rates, and do not pay their share of the fixed expenses. If, however, high rates were charged for coal, the amount carried would be greatly reduced, and manufacturing plants using coal in the production of articles which will bear higher rates would be adversely affected.

The motive which primarily impelled traffic managers to classify freight can be simply illustrated by again considering the case of a motor-truck carrying butter and eggs. If ordinarily the entire capacity of the truck was not utilized, the driver would find it advantageous to fill the space with some other product, even though the latter must be carried

at a low rate. A low rate per pound might be given to potatoes. If the same rate were charged as for butter, it would not be profitable for the farmer to send potatoes by this particular motor-truck. But, since the truck is making the trip, some extra profits can be obtained by filling up the extra space with potatoes paying a rate but little more than the extra expense of carrying this cheaper and bulkier product. The railway traffic manager finds himself in a similar position. Classification is not legally considered to constitute discrimination.

Regulation or Public Ownership. Railways are monopolies of organization, and should be recognized as such. Since the railway is a business of increasing returns or diminishing expenses, the temptation to allow personal and place discrimination is strong. And this signifies that governmental regulations must be utilized to fix rates and to determine many of the conditions of operation; or, as an alternative, the government must take over the railway industry and operate it as a governmental enterprise. Competition cannot be relied upon; the choice of necessity lies between governmental regulation or governmental ownership. The United States tested for thirty years, from 1887 to 1917, the policy of regulating railways.

The Regulation of Railways. Under the federal constitution the regulation of interstate commerce is vested in the federal government; but the control of the intrastate traffic is a function of the state government. With the growth of big business and of wide market areas, interstate commerce has grown to huge proportions. The more important form of regulation is that placed in the hands of the federal government. The federal government and forty-six of the forty-eight states have laws providing for the

regulation of railways by means of some form of commission. The state commissions vary greatly in the extent of their powers and in efficiency. The federal act providing for the Interstate Commerce Commission was passed in 1887; it has been amended and strengthened several times. The two fundamental principles upon which both the state and federal legislation rest are: (1) railway rates must be reasonable and (2) discriminations must cease.

In 1917, the Interstate Commerce Commission consisted of seven members appointed by the President and confirmed by the Senate. Under its jurisdiction were placed the interstate traffic of steam and electric railways, telegraph, telephone, and cable lines, pipe lines, express and sleeping car companies. The statutes provide that all railway rates must be reasonable; but no definite standard is offered for measuring fairness or reasonableness. The Commission is now engaged in the formidable undertaking of making a valuation of the physical property of the railways. The theory underlying this effort is that rates should be such as to give a fair return upon the tangible property of the companies. Many grave and intricate problems, which cannot be here discussed, however, arise in connection with this hypothesis.

Discriminations between persons or places are prohibited; and the giving or receiving of rebates is likewise placed under the ban. It is unlawful to charge more for a short than for a long haul over the same line and in the same direction, — unless permission is granted by the Commission. Pooling or the division between two or more railways, by agreement, of the freight traffic or of the sums received from the shipper, is prohibited. Uniform bookkeeping is required and reports must be made annually to the Commission. Rates to be

charged must be filed with the Commission and, as a matter of actual practice, rates cannot be raised without the consent of the Commission. The Commission has the power to fix maximum rates for a period of two years. All orders of the Commission are subject to court review and may be set aside by order of the court.

The Adamson Act, passed in 1916, fixed the length of the standard working day on interstate railways at eight hours. In effect, the law also established a rate of wage payment. The Supreme Court of the United States upheld the constitutionality of the Adamson law. The court also suggested in its decision that compulsory arbitration was a legal method of settling labor disputes in the railway industry. The contrast between the rights of a railway corporation and those allowed to the owner of a small manufacturing or mercantile business, is striking. Railway rates are practically fixed by a commission; hours of labor, the use of safety appliances, and even wage rates are subject to outside regulation; and the government apparently may settle by arbitration all disputes between the railway as an employer of labor and its employees. Surely, the old, much-lauded right to run one's business without interference is out of date in the semi-public railway industry even in times of peace.

An additional reason for asserting the right of the government to regulate railways is found in the grant to the railways of the right of eminent domain. By the use of this legal weapon, the railway can, if necessary, condemn property for its right of way. Without this right, railways would find it difficult, if not impossible, to obtain the land necessary to lay their tracks. Some one property owner might block the project by refusing to sell his property. From 1850 to

1870 the federal government also aided railways by giving them as land grants, millions of acres of land.

Regulation by commissions has been given a thirty-years trial in this country. It must be conceded by the unprejudiced observer that the experiment has not been an unmitigated success. From time to time, weaknesses have been found, and new legislation passed to remedy the evils. The power of the Interstate Commerce Commission has been steadily growing; and it is to-day a dignified body of experts. Nevertheless, the railways in recent years were finding it more and more difficult to borrow capital for needed additions to the equipment of the roads. In the fall of 1916 and the spring of 1917, the railways were clearly unable to handle the traffic with a reasonable degree of efficiency. The next step may be permanent governmental ownership and operation of railways. Such a step would be in the direction already taken by many European countries.

In 1917, the railways of the United States were operated under the control of the "Railroads' War Board." This Board was organized by the railways "to operate all the roads of the country as one system for the purposes of national defense." It was the aim of the Board to secure the maximum of efficiency in the movement of coal, food, materials, and troops. In December, 1917, the United States government as a war measure took control of the great American railway network. Such control was originally authorized to continue for twenty-one months after the treaty of peace was signed. The American railways are at the present time (1919) owned by private corporations and are operated by the federal government.

Under unified and governmental administration certain improvements have been made which enable more work to

be accomplished with less effort, — the true aim of any business organization from the social point of view. Unnecessary freight and passenger offices have been closed, indirect routing of freight cars has been in a large measure eliminated, expenditures for advertising and legal services have been reduced, and the salary roll for high officials cut. Under one management, locomotives and rolling stock can be standardized with a saving in original cost and in the expense of repairs. Improvements of various kinds can be made on the theory of the betterment of the entire national system instead of a single line. Under unified control, the total resources and equipment of the railways can be easily and quickly mobilized to complete efficiently and expeditiously a specific task; and the special interests of a particular railway will no longer work against the general railway interest or the general interest of the nation. However, practically all of these benefits are possible under unified private management as well as under governmental control.

If united operation be desirable as a war measure, if it makes for efficiency under the stress of war, surely unification will also make for efficiency and for the reduction of waste in the more prosaic times of peace. It is quite clear that, if the operation of the railways is again to be placed in the hands of the owners, the federal statutes should be so changed as to allow the unification of the American railway system under the strict supervision of the Interstate Commerce Commission.

CHAPTER XIII

MUNICIPAL MONOPOLIES

General Principles. Municipal monopolies are natural monopolies controlling the output of a product or service of great importance to the municipality. The businesses of supplying water, gas, electricity, and street railway service to the people of the cities are the most important municipal monopolies. These are frequently called public service corporations because the business of such monopolies is of especial interest to the people; the public welfare is dependent upon the proper and continuous functioning of municipal monopolies.

A private municipal monopoly of the type under consideration, before it can do business, must obtain a franchise giving to the corporation the right to use the city streets for the location of its tracks, poles, pipes, or wires. In the early history of municipal monopolies, these franchises were usually donated to the company proposing to operate; they were often perpetual and did not bind the company in any effective way to give good service at reasonable rates. Fifty or seventy-five years ago our cities were much smaller than to-day, and the business of public service corporations was new and unstandardized. The investment of capital in a street railway plant was considered to be and in reality was a speculative venture. To grant franchises without recompense and without definite provisions for regulating the company was not considered unwise; and naturally such

a course of action was favored by the promoters of public service corporations. The unprecedented growth of cities in recent decades has made the franchises granted very valuable monopoly privileges. Under public management, the advantages of this special privilege would go to the community in the form of profits or of reduced rates.

The early history of municipal monopolies is that of small corporations aided by public grants and without regulation. The consensus of opinion was that competition would be a sufficient guarantee of fair prices and equitable treatment. But the business of these companies grew larger as our cities increased in population and wealth. Franchises became very valuable and public service corporations entered politics in order to obtain special favors and to prevent movements in favor of regulation from coming to a successful issue. An era of unparalleled municipal corruption followed. American city government was held to be a disgrace to our civilization. "The Shame of the Cities" was held up before the American people. Finally public sentiment was aroused. The people of our cities are coming to accept the conclusion that the business of supplying transportation, water, gas, electric light, and telephone service are public service industries; that they are essentially monopolistic; and that franchises should not be granted in perpetuity or without definite provisions for regulation and control by the city or the state government. And along with this new conception of the public service corporation is coming a new era in municipal government. In the last decade or two, municipal administration has made unprecedentedly rapid strides toward efficiency and away from political jobbery.

The reasoning used to prove that a gas company or a street railway company is engaged in a monopolistic business,

is quite similar to that used in the case of a steam railway. It is economical to grant a franchise to only one gas company in a city. It is clearly wasteful and uneconomical to allow two lines of gas mains to be laid in the same street, or to build two gas plants where one larger plant would produce the gas demanded at less cost. A gas company must have a plant and gas mains whether it has 10,000 or 15,000 customers. Ordinarily, the cost per 1000 cubic feet of gas is less when the number of consumers is 15,000 than in case the number is reduced by the competition of another company. As in the case of the railway, competition soon brings about combination with two plants doing what one could perform less wastefully. Competition between street railway companies in a given city soon leads to combination. In 1890, one of the large cities of the Middle West boasted no less than seven street railway companies. To-day with a population approximately three times as numerous, only one company is doing the business.

Water. A plant furnishing pure water under pressure to the people of a town or city has become a necessity in this country. No city in the United States is without such a plant; and many small villages have built a water-pumping plant. Comfort, health, cleanliness, protection from fire, civic beauty, and recreation, all require an adequate and certain supply of flowing water. The business of furnishing a water supply is so vital to the welfare of the community, and the engineering problems are so well standardized that a large percentage of American waterworks are operated directly by the cities. In 1912, only eight cities with a population of 100,000 or over were supplied with water pumped by privately owned plants. The consumer ordinarily pays an amount equal to the cost of the water supplied.

Municipal ownership and operation of waterworks in this country is a success.

If the municipality furnishes cold water for a variety of purposes, may it not also with propriety be expected to furnish at cost hot water for heating our houses? Central heating plants are much more economical and cleanly than a multitude of private homes each operating a wasteful and dirty heating plant. The use of water power transported through the medium of electricity for heating and lighting may also become quite general in the not distant future. Consequently, the water power of the nation should be utilized directly by governmental units or by private companies strictly regulated by public authority.

Gas, Electricity, and Transportation. Gas has been used as an illuminant for over one hundred years. With a few exceptions, American municipalities rely upon private companies to furnish gas for lighting, heating, and cooking. In 1912, Richmond, Virginia, was the only city of at least 100,000 population in which gas was furnished by a municipal plant. As many of the companies were organized and obtained their franchises before the recent movement for the regulation of municipal monopolies, over-capitalization, poor service, and exorbitant rates have too often been characteristic of this municipal monopoly. In recent years, however, the situation has improved.

Electricity first came into use for lighting purposes in the eighties. For illuminating purposes, it is gradually displacing gas. The use of electricity for heating and for cooking may be expected to increase greatly in the near future. Municipal ownership of electric lighting plants is much more common than of gas plants; but the large electric plants are nearly all operated by private companies. Large companies have

been organized to supply several towns and cities. For example, the little city in which the writer lives is supplied with electricity by a corporation which also furnishes electricity to several other cities in Southern Michigan. The current is carried at high tension from a source of power many miles away.

Electricity has practically displaced other forms of power for street railways; but in recent years the electric street car is facing the competition of the automobile. With the exception of three cities which own and operate street railways, the American systems are operated by private companies. The tendency, as in other municipal monopolies, is toward more strict regulation of the transportation companies. In the past, street railway companies have been guilty of over-capitalization and corrupt methods. The telephone business is in the hands of private corporations. In European cities, municipal ownership and operation of municipal monopolies is much more common than in the United States.

Other Municipal Industries. American cities have not gone far in developing public operation of industry. The business of cleaning the streets and, in many cases, that of paving the streets is carried on directly by American municipalities. There are about twenty municipal asphalt paving plants. A large percentage of our cities have publicly owned markets from which truck farmers and others may sell direct to consumers. New York City and Boston own and operate ferries. The city of New Orleans owns a large percentage of its water-front.

Several American cities have established municipal universities. One city owns a telephone plant; and Cincinnati owns a steam railway over thirty miles in length. Several

American cities operate ice plants. New York City has six large markets for selling produce from the farms, and meat. Some of the Australian states have entered into a variety of businesses in competition with private firms. West Australia has for years owned and operated brickyards, quarries, saw-mills, steamships, hotels, agricultural implement factories, and a laundry. In 1916, under the pressure of rising prices, retail butcher shops, fish markets, and bakeries, owned and operated by the state, were opened in certain large cities. Queensland also began in 1915 the operation of retail butcher shops.[1]

In the United States, a further increase in municipal ownership and operation of municipal monopolies may be anticipated. The advocates of municipal ownership urge that the rates charged for the service may be reduced and the quality of the service improved. Service rather than profits may be the aim of public operation. The profits of monopoly, it is asserted, will go to the public instead of into the pockets of the owners of a monopoly privilege. Public service corporations would no longer exist to corrupt city officials. It is also urged that better wages will be paid under municipal than under private management and that working conditions will be improved.

On the other hand, the opponents of municipal ownership and operation urge that the efficiency of the plants will be reduced under public management, and that certain incentives which keep the managers of private enterprises alert and progressive are lacking under municipal control. It is also asserted that the employees in municipal plants will use their political influence to obtain higher wages, a shorter working day, and other concessions.

[1] Notz, *The Survey*, September 22, 1917.

TOPICS FOR DISCUSSION

1. What municipal monopolies are carried on in your town or city?
2. Should other businesses be carried on as municipal monopolies? Why?
3. Should water be furnished free to residents of your city?
4. Should a municipal monopoly "make money"?

CHAPTER XIV

THE LABOR FORCE

Labor in Modern Industry. In colonial days, the producer consumed the major portion of the supplies he produced. Industry was organized on a very simple scale; the tool was the predominant type of instrument used. Only a comparatively small percentage of the labor force worked for wages — were wage earners. The pioneer farmer was self-employed; he was not a wage earner. Two other forms of labor were utilized in colonial times, indentured servants and slaves. Hard labor, the sweat of the brow, played a large part in early American industry. Capital was of much less relative importance than at the present time. Industry was still in the small-tool stage of evolution.

Since the Civil War, American industry has become capitalistic. The machine has largely displaced the tool. The self-employed worker has almost entirely disappeared except in farming and in certain forms of professional service. Capital is dominant; the owners of capital hire wageworkers and direct their efforts. The wageworker obeys orders; he no longer owns the tools or the machine with which he works, the raw material, or the finished product. He labors for a definite contractual wage. Goods are almost universally produced for the market, not for home consumption. The attention is centered upon prices.

The wage-earning labor force is now a very considerable percentage of the total population. In the United States, there are at the present time 30,000,000 or more gainfully

employed workers. Of this number approximately one fourth are female, — and the number of women workers is rapidly increasing. A very large percentage of our wage earners live in cities and are foreign-born or the children of foreign-born parents. The rough, hard, routine manual labor is the burden of the recent and often despised immigrant. The unskilled workers in our factories, a large percentage of the mine workers, the section hands on our railways, and the workers in the beet and onion fields are recent immigrants. A large fraction of the farm laborers and also of the drifting and irregular workers of the West are, however, not composed of recent immigrants. Big national problems are connected with the Americanization of this great recent immigration and with raising its standard of efficiency. The managerial positions, professional service, clerical work — the salaried positions — and the skilled trades are very largely in the hands of the children of the earlier immigrants from Northwestern Europe.

Immigration. Until 1880, nearly all of the immigration to this country came from Northwestern Europe. The English-speaking people were predominant in the first decades of the new nation. In the forties, the Irish driven by the potato famine came in large numbers to our shores. The revolutionary disturbances of 1848 also led many Germans to cross the Atlantic. In the decade, 1851–1860, Great Britain, Ireland, and Germany furnished nearly nine-tenths of the total immigration. A rural environment and cheap land attracted the attention of many sturdy and independent men. The immigrant of the pre-Civil War period had to undertake a long and tedious journey and after his arrival enter upon the hardships and the isolation of pioneer life. Only the sturdy and independent dared

undertake the long and difficult journey unless the conditions in the home land were very repulsive.

About 1880, the situation changed. The frontier and the free homestead were becoming matters only of history. Manufacture, mining, and the railways were growing. Big business was appearing above the horizon of the industrial world. The ever-growing factories utilizing more and more machinery were searching for docile routine workers; and improved transportation facilities made the journey to America comparatively safe and easy. In 1909, Great Britain, Ireland, and Germany sent only about one-eighth of our total immigration; but Austria-Hungary, Italy, Russia, and Poland contributed five-eighths of the total. While the character of the stream of immigration was changing, its volume was increasing in an irregular and jerky fashion. Years of prosperity turned more and more faces to the New World; an epoch of hard times reduced the volume. Immigration is a matter of pushes and pulls. Good times and liberal treatment attract many newcomers to a country of immigration; but hard times and harsh treatment in the home lands also send many forth in search of better things. In 1837, only 80,000 immigrants were admitted; in 1907, the high-water mark of 1,285,000 was attained, — a total greater than the population of Cleveland in 1917. This total was equal to one third of the population of the United States when the first Census was taken in 1790. For 1909, the figures are 751,000; but, in 1914, the stream came near to the mark of 1907 with a total of 1,218,000.[1] The opening of the Great War immediately checked immigration. In 1915, the number reported was 326,700; in 1916, 298,826; and, in 1917, 295,403. Every

[1] The figures are for the fiscal year ending June 30.

year a considerable number of aliens return to their home country. On the average, the number returning has been equal to one-third of the incoming horde. The net immigration has been, therefore, about two-thirds of the gross figures given above. In 1919, the percentage returning is much larger.

The great expansion of industry in recent years and the rising tide of immigration are related phenomena. Without the labor supply furnished from outside the country, industrial progress would have been slower and the growth of cities less rapid. On the other hand, except for the great progress toward large-scale business and the increasing use of machinery, the immigrant from Southern Europe would have found no job awaiting him as soon as he planted his feet on the land of promise. The marked reduction in the number of immigrants following the opening of the war in 1914 tended to reduce the supply of wageworkers. As a consequence in 1916, Negroes began to come North in considerable numbers. The Negroes obtained jobs in mills and factories. By the middle of the year 1917, several hundred thousands of colored folks had left the South.

The immigration of recent decades from Southern Europe has forced upon the people of the United States certain very difficult economic and social problems. A large percentage of the newcomers are ignorant and unskilled; they are not accustomed to the form of government with which we are familiar. They have taken low-paid jobs and have been obliged to live in the crowded and insanitary portions of our cities and factory towns. The death rate among the recent immigrants and their children is high. The American people have paid little attention to the immigrant. We have expected him to work hard for low wages, and to be

docile and uncomplaining. It has been complaisantly urged that America is a "melting pot" for the people of the Western World; but the pot has not been carefully watched. When face to face with a great world war, Americans began quickly to realize that national security demanded that more attention be paid to the immigrant, that he and other unskilled workers be accorded better treatment than that which has been too frequently given, and that the Americanization of the immigrant is of paramount importance.

Restriction of Immigration. Although Americans have repeatedly boasted that the United States is an asylum for the oppressed and forlorn of all lands, opposition to immigration is not of recent origin. Many of the founders of the nation were opposed to immigration. They feared that the newly established republican form of government might be undermined and destroyed, provided too many came here from monarchical Europe. In the forties and fifties of last century, the coming of the Irish Catholics and of many Germans who did not seek to be naturalized, led to the formation of a political party which proposed to exclude Catholics and immigrants from political offices. But, after the Civil War opened, the opposition to immigration died away temporarily.

The first general immigration law was passed in 1882. Since that date several acts in regard to immigration have been placed upon our statute books. Briefly stated, our present laws exclude illiterates, paupers, defectives, diseased persons, immoral persons, anarchists, polygamists, and laborers under contract to work for some American employer. Chinese laborers are excluded by special act; and through an agreement with the Japanese government laborers from that country are not allowed to come to the

United States. Careful inspection of immigrants is provided for at the ports of entry by the federal government. The opinion is held by many Americans that this or any other prosperous and progressive country having a low birth rate may properly protect itself from the influx of low-standard-of-living workers from a country of high birth rate and dense population. It is urged that unrestricted migration would in such a case tend to spread poverty world wide.

Routine Work. Modern industry imposes upon the workers speed and monotony. Skilled occupations have been pulled apart and subdivided into a considerable number of unskilled or semi-skilled forms of labor. The worker is speeded up and repeats in a monotonous way some simple operation, hour after hour and day after day. Simple routine work continued for a long working day finally becomes deadening and stupefying. The worker becomes an unthinking machine; and after his day's work is done he is in no position to consider the obligations of good citizenship. A long working day coupled with monotonous unskilled work complicates greatly our labor and social problems. The eight-hour day makes for good citizenship.

The Migratory Worker. A dangerously large percentage of the American labor force is composed of migratory and homeless workers. The conditions in many of our important industries make for irregularity of work and for the degeneracy of the workers. The section gangs on our railways and construction workers of various kinds include many homeless, drifting workers. In the harvest fields and on the fruit farms of the West, in the beet and onion fields, and in the logging camps are found migratory and homeless workers. It was estimated in 1915 that in California alone

there were nearly 200,000 casual workers. This Pacific Coast state offers jobs to thousands in the summer who must drift back to the cities and to idleness and debauchery in the winter. These casual workers are almost without exception harshly treated by their employers and by the public authorities. The radical and revolutionary labor organization called the Industrial Workers of the World is composed almost entirely of workers from the casual labor group. One of the keenest observers of labor conditions in this country warns the American people that "we shall hear more and more of the unskilled, underpaid, disorganized seasonal workers. They will themselves see to it that we hear." The irregular workers, discontented and ill-treated, are a menace to organized society; but stern repression of this discontented group will not solve the problem. This great group of drifting workers has lost the normal incentives in life and the point of view which places emphasis upon workmanlike qualities. These unblessed rootless workers are hostile to organized society and to the ideals which the middle class and the more conservative group of American workingmen blessed with home ties and a stake in life, hold dear.

CHAPTER XV

LABOR ORGANIZATIONS

Why Is Labor Organized? The modern labor organization is a product of the cleavage between employee and employer. As long as industry was small-scale, as long as the employer usually worked with his men, and every wageworker hoped to become a small business man, to work for himself, the only labor organizations were local and ephemeral labor societies formed to prevent a threatened encroachment upon their standard of living or to combat some other danger. In recent decades, industries have become large-scale; the employer no longer comes into personal contact with his employees, and the wageworker no longer hopes to rise out of his group into the class of independent business men. Workingmen, as a consequence, have become primarily interested in their prospects as wageworkers, and are no longer much concerned about the chances of becoming other than wageworkers. The labor organizations of to-day are permanent and firmly united bodies.

A labor organization has been defined as an "association of wage earners for the purpose of maintaining or improving the conditions of their employment." To maintain or to improve working conditions organization is essential, declares the unionist of to-day. Through union action, it is asserted, wages have been raised, the length of the working day shortened, and other advantages gained. The union is a better bargainer than the individual wage earner. The

unorganized wageworker cannot hope to drive an equitable bargain with a large aggregation of capital. In short, in unity there is strength. Capital has found the union called the corporation advantageous; labor likewise is banding together for its betterment. The labor organization is the counterpart of the corporation.

Relation of Employer to Employee. The point of view of the employer is quite different from that of the employee. The employer is primarily interested in the financial success of his business and only secondarily in the welfare and happiness of the workers whom he hires. To many employers of to-day, productive activity — work — on the part of the great mass of people is the only excuse for the existence of the latter. Too often are the wageworkers of the nation treated as animated machines.

On the other hand, the workers in this era of machinery and of great productivity are insistently demanding more and more of the comforts of life and an increasing amount of leisure time. Labor organizations have come into being to aid in giving the workers higher wages, a shorter working day, and better working and living conditions. The labor organization is insisting upon "respect for mere men," and upon better treatment for the great class of toilers in mill, mine, store, and elsewhere.

Not only are the economic interests of the employer and the employed very different, but their work and experience are dissimilar. One is engaged in directing a business, in buying and selling, in markets and prices, in contracts and property rights; the other in doing a routine or a skilled form of manual work involving little or no business experience. The two rarely or never meet outside the factory in social life. As a consequence of this lack of contact with

each other during working or leisure hours, each is inclined to under-emphasize the ability, the importance of the function, and the virtues of the other. Out of this unfortunate situation easily develop misunderstanding, antagonism, and bitterness in the industrial world.

The Knights of Labor. A few isolated labor organizations may be found in the United States before 1825; and from 1825 to the close of the Civil War many organizations of workingmen were formed. Some of these were of considerable political and industrial importance. But the first great American organization of laboring people was named the Knights of Labor. It was organized in 1869 as a secret society. The Knights of Labor was not a trade union; it was a mass organization of all kinds of workers. The Printers' or the Typographical Union, for example, is a trade union; but the Knights of Labor admitted printers, carpenters, tailors, unskilled workers, — all sorts of wage-workers. The organization grew slowly until the early eighties; then it suddenly increased greatly in membership. In 1886, it is said to have had 600,000 members. But it was very difficult to hold this big mixed group of workers together. The period of decline soon followed; and in its stead appeared the American Federation of Labor. The Knights of Labor is still in existence as a very weak and inconsequential organization.

The American Federation of Labor. The American Federation of Labor was organized in 1881. The underlying principles of this labor organization are quite different from those of the Knights of Labor. The Federation is, as its name indicates, a federation of unions. An individual wageworker does not directly belong to the American Federation of Labor. If he is a union carpenter, he belongs

to a local union of carpenters in his town which in turn is a part of the national union called the United Brotherhood of Carpenters and Joiners of America. This national union is affiliated with approximately 110 other national unions such as the United Mine Workers and the International Association of Machinists, in the American Federation of Labor. City federations, state federations of labor, and trade departments such as the Mining Department, are also organized within the American Federation; but the one hundred and eleven (in 1918) national unions control the policy of the American Federation of Labor.

Over three millions of wageworkers belong (1919) to the organizations affiliated with the American Federation. An annual convention is held each year to which delegates are sent from the affiliated organizations in proportion to membership. The Federation unites the major portion of union men in the United States into one body. It has little direct authority over its affiliated members; but its indirect influence is of considerable importance. It exerts much political influence in securing the passage of legislation favorable to the wageworkers of the nation. According to the constitution of the Federation, its chief purposes are to unite the national unions together for mutual assistance, to encourage the sale of union label goods, to secure labor legislation, to influence public opinion in favor of organized labor, to aid and encourage the labor press, and to aid in forming local unions. Samuel Gompers is the President of the Federation. Only a few important labor organizations, including the radical Industrial Workers of the World, now remain outside the Federation. The total membership in all unions in the United States is nearly four million.

The Structure of a Labor Organization. There are two important varieties of labor organizations at the present time, trade or craft and industrial unions. A trade union is composed of wageworkers of one trade only, such as, for example, the machinists. The union machinists in a given town working in different shops, all belong to one local, a part of the International Association of Machinists. The industrial union is not limited by occupational lines; it aims to unite all the wageworkers in a shop or mine, irrespective of the sort of a job they may hold, into one coherent organization. The United Mine Workers of America is an industrial union; into this union are gathered all the workers in and around the mines, — miners, helpers, engineers, carpenters, teamsters, etc. The United Mine Workers is the largest union affiliated in the American Federation of Labor; but the great majority of the national unions in the American Federation are trade unions. Modern industry is tending to destroy the sharpness of trade demarcations; more and more unions of the industrial type may be anticipated in the future.

The fundamental unit in labor organizations is the local. In a trade union, as has been indicated, a local is composed of the workers in a given trade, living in one locality; these locals in turn belong to a national, sometimes called an international, union. In an industrial union, the local contains the workers in a given shop or factory. The national union is a federation of locals. The power and administrative methods of national unions vary greatly. In certain organizations, of which the Typographical Union is one, the national union — the central body — is strong and controls quite rigidly the locals. In others, such as the Barbers' Union, the central organization is weak. The

tendency in recent years is almost universally to strengthen the power of the national organization over the locals.

Like the form of government of a nation, the structure and methods of a labor organization have been adopted in response to the peculiar circumstances surrounding that group of workers. No two classes of workers face exactly the same obstacles or difficulties. Some workers are skilled and not easily replaced; others are unskilled and always fear the competition of the green hand. In some cases, machinery modifies the conditions in the trade, as in the shoemaking industry; in others it does not greatly affect the situation, as in the case of the barbers. Again, employers are very hostile, as has been the case in the iron and steel industry; or generally friendly, as in the stove industry. These and a multitude of other circumstances tend to give a peculiar form of organization to each union. As no two nations have exactly the same form of government, so no two labor organizations are exactly alike in form and government.

The average unionist, like the average man, is interested in the things which immediately and directly concern him and his family. He desires immediate results which mean higher wages, a shorter working day, and better living conditions. The unionist like many other men may have high ideals; but he is especially prone to be moved by "bread and butter" logic. It must be admitted that union policies are the output of selfish and short-sighted groups; and it is true that the labor leader, like the successful politician, is one who can get results which are tangible in the near future. In short, the member of a labor organization is possessed of the faults and frailties of the ordinary person in your community. We should be more patient with organized labor; we should diligently seek for the causes of the peculiar

methods and policies to which organized labor is committed. Invectives and unlawful persecution only aggravate the difficulty. Organized labor is here and here to stay. Instead of attempting to smash it, we should try to understand it.

The Industrial Workers of the World. Unlike the labor organizations affiliated in the American Federation of Labor, this union is a frankly revolutionary body. The Industrial Workers do not accept the present industrial order; they wish to overthrow it. The employer is not to be bargained with except in a case of necessity; he is to be eliminated. Frequent strikes, the use of violence, injury to machinery, or concerted inefficiency — sabotage — are some of the weapons which the radical Industrial Workers of the World propose to use against the owners of capital. This organization is an industrial union; trade or craft lines are given no consideration in the formation of the locals. In a given factory, all wageworkers are to be grouped together in one local. The membership is small and fluctuating; it consists chiefly of the unskilled and migratory or homeless workers. The strength of the Industrial Workers lies in its passionate appeal to the discontented and unsuccessful rather than in numbers or in a full treasury. Its stirring slogans point to class hatred and the solidarity of the wage-earning class. Soon after the United States was forced into the war in 1917, the Industrial Workers of the World attempted to embarrass the government by declaring strikes in certain important industries. This action was quite in harmony with the philosophy of the organization in regard to government and patriotism.

Employers' Associations. Employers, as well as employees, form unions. The corporation is from one point of

view a union of stockholders. Employers also organize federations or unions of a different nature. One kind of union is called an employers' association. These associations are, like unions of wageworkers, both local and national, — city and national employers' associations. Employers unite to advance their own interests in various ways, and particularly to resist the aggressions of labor organizations. On occasion, they do not hesitate to use weapons similar to those used by the much criticized labor men. The lockout is used instead of the strike; the blacklist is the converse of the boycott; and spies and armed guards serve ends not dissimilar to those for which the union uses pickets.

The National Association of Manufacturers is a nation-wide organization of employers corresponding to the American Federation of Labor. City employers' associations, of which there are many, are similar to the city central labor unions. The National Founders' Association, which is composed of foundrymen, is the counterpart of the International Molders' Union. These organizations are bitterly anti-union. They wish to crush unionism; at least, they wish to crush the kind of unionism which is strong and "has teeth." Anti-union employers' associations assert that their members propose to "run their own business." They object to bargaining with representatives of a labor organization; they stand for the "open" or non-union shop. The attitude of these associations has increased the danger of a bitter class struggle between labor and capital.

Other associations of employers are also in existence that bargain with organized labor, or that are not anti-union. It is the plan of this type of associations to bargain collectively with the union of their employees, and to check the excesses of unionism. The Stove Founders' Defense Asso-

ciation of stove manufacturers is of this type. For years, the stove manufacturers have bargained with the International Molders' Union; and strikes in that important industry have been avoided.

TOPICS FOR DISCUSSION

1. What labor organizations have members in your town or city?
2. Are the business men organized?
3. What is the attitude of your friends and relatives toward labor organizations?
4. What is the attitude of the largest employers of labor in your city?

CHAPTER XVI

LABOR LEGISLATION

The Labor Contract. The condition of wageworkers may also be improved by legislation. Unorganized workers, especially women and children, may be benefited by the passage of labor laws; but organized labor is, in many cases, sufficiently strong to obtain the same ends without the interposition of legislative bodies. Labor legislation is a form of legislation which is passed primarily in order to improve the working conditions of wage earners; the ultimate aim is to raise the national efficiency. When a wage earner is hired a more or less formal contract is entered into. This labor contract — an agreement made by one person to perform for compensation certain services for another — is the result of a bargain. Labor legislation constitutes an interference with the right freely to make a labor contract. Law-making bodies recognize that as a rule the employer is in a more favorable position for bargaining in regard to the terms of the labor contract than are his employees, especially in case the latter are unorganized workers. Bargaining between employers and unorganized employees is known to be one-sided. From this point of view, labor legislation is an attempt to eliminate some of the conditions which make for inequality in bargaining. It is an attempt to remedy the evils of individual bargaining. Labor laws fix the limits beyond which no wage bargain can be made.

Attitude of the Courts. In the United States, labor laws and other forms of legislation passed by our various legisla-

tive bodies may be declared unconstitutional by the courts. When a law is declared unconstitutional, it becomes null and void and is no longer enforced. The Constitution of the United States was formulated and ratified before the days of big business, of railways, and of airships. According to the prevailing political theory of that period, the government ought not to interfere in ordinary business affairs; and this theory found its place in sections of the Constitution. The wage bargain was a matter to be settled by the wageworker and his employer without outside or official interference. This theory of non-interference seems to have been fairly equitable in the days of small business and of the pioneer; but in recent years many of the ablest men and women in the land have come to believe that governmental interference in the business world is often desirable. Early labor laws were in great danger of being declared unconstitutional by the courts. Indeed, to-day, a literal or strict interpretation of the Constitution would cause many labor laws to be declared null and void.

But the Constitution was ordained among other things "to promote the general welfare." Acting under the general welfare clause of the Constitution and using the somewhat indefinite and elastic "police power of the state," American courts in recent years have declared many labor laws constitutional which a few decades ago, under less complex industrial conditions, would have met with the disapproval of the courts.[1] These laws are held to make for equity in bargaining between employer and employee, and to improve the health, efficiency, and welfare of the working men and women of the nation. The police power of the state may

[1] For a more detailed discussion of this important matter, see Carlton, *History and Problems of Organized Labor*, pp. 263–274.

be exercised to restrain the individual in order to promote the social welfare. Sanitary and health regulations are enforced by virtue of the police power. In recent years, American courts are ruling that certain forms of labor legislation tend to improve the health, vigor, efficiency, and morals of the workers and, consequently, constitute a legitimate exercise of the police power of the state.

Laws fixing, for example, the maximum number of hours per day or per week which a child or a woman may work in a factory, interfere with the abstract right to make any kind of a contract which an individual may see fit or be forced to make. But such laws are now held to be constitutional; they fall within the scope of the police power of the state, because a long working day for women and children is considered to be injurious. The courts were much more reluctant to affirm the constitutionality of laws interfering with labor contracts made by adult male workers. In 1898, however, the United States Supreme Court decided that a Utah statute fixing eight hours as the legal working day in mines was constitutional. Mining was recognized as an especially dangerous and unhealthful occupation. Nearly twenty years later, the Supreme Court gave the police power much wider scope by declaring an Oregon law constitutional which fixed at ten per day the maximum hours of labor for adult males, except in emergencies, in manufacturing industries. The health and stamina of the workers were safeguarded, and the limits of the wage bargain contracted by this important decision.

The Advantage of a Short Working Day. The success of a democratic form of government is dependent upon the character and education of the mass of its citizens. The long working day tends to stupefy and brutalize; the

shorter working day, on the other hand, tends to improve the health and efficiency of the workers, to reduce the amount of dissipation and intemperance, and to give the workers an opportunity to enjoy rational and uplifting forms of recreation. A short working day makes for good citizenship and for social betterment. "The first school of morals, family life, is a closed book against the man who only comes home dead tired late at night." A long working day is an almost insurmountable obstacle in the upward path of the wageworkers; and, consequently, is undesirable in a democracy. But, granting these points in regard to the social value of a short working day, this question inevitably follows: Will the reduction of the average working day from twelve or more hours to ten, nine, or eight reduce the output of the workers of the nation? This is an important question, and sufficient facts are at hand to allow a fairly convincing answer to be given.

In the soft coal industry in the United States a reduction from ten to eight hours was followed by an increase in the average daily output per worker; and in the hard coal industry a reduction from nine to eight hours led to a similar result. A large shoe manufacturing company found that a reduction from fifty-five to fifty-two hours per week resulted in an increased output per employee. A British official committee after a careful investigation of the health and output of munition workers in 1916 and 1917 reported "that the time is now ripe for a further substantial reduction in the hours of work." The facts seem to warrant the following statement: The eight- and the nine-hour day make for good citizenship and social uplift, and also for industrial efficiency and increased national output.

For years organized labor in the United States has been

striving to secure an eight-hour day. In 1912, it was estimated that nearly two millions of wage earners were working eight hours per day. An official investigation indicated that, in 1914, nearly twelve per cent of all workers in manufacturing plants were working eight hours or less per day. Since 1914 many additions have been made to the number enjoying the shorter working day. In the ten months preceding April 1, 1916, one authority declared "nearly 100,000 men and women have won the eight-hour day in the United States." The federal statutes provide for an eight-hour day for laborers working for the federal government or on governmental contracts. If more than eight hours is worked a higher wage must be paid for overtime. This law may be set aside in cases of extraordinary emergency.

Chief Forms of Labor Legislation. In the United States, the regulation of working conditions in factories, stores, offices, and other work-places is a state, not a federal, function. The federal government can regulate working conditions in the District of Columbia and in the territories, and in the case of its own employees. In 1916, Congress attempted to regulate child labor in the states by passing a law prohibiting manufacturers from placing in interstate commerce, goods produced in factories employing child labor. This attempt to regulate factories, through the power of Congress over interstate commerce, was declared unconstitutional two years later. Each state has its own particular form of labor legislation; and there is as yet little uniformity.

Every state of the United States and the federal government have passed much legislation in regard to working conditions in factories and other work-places. Labor legis-

lation relates to a variety of different subjects, — such as provision for factory inspectors, the limitation of the length of the working day and the number of working days per week, prohibition of night work and of Sunday labor, exclusion of women and children from certain kinds of employment, provisions for frequent payment of wages, laws fixing a minimum wage for women and children, requiring the use of certain safety appliances, regulations in regard to sanitary conditions in factories and other work-places. The enforcement of labor legislation is usually placed under the control of a commissioner of labor or an industrial commission directing a corps of factory inspectors.

Legislation in Regard to Child and Woman Labor. Every state in the Union has passed some legislation relating to the work of children. The typical law in the Northern and Eastern states prohibits the employment of children under fourteen years of age in factories, stores, workshops, and mines. In dangerous or unhealthful employments, the limit is raised. In the street trades and in agriculture, the limit is lower or no limitation is provided. As a rule children between the ages of fourteen and sixteen years are obliged to obtain working papers indicating that they are in good health, that they have completed a minimum amount of schooling, and that the family needs their earnings. Night work is prohibited in some of the states; and the working day for children is fixed in many states at eight or nine hours. The laws in the Southern states are less rigid than those in the North; but the standards have been raised in recent years.

The great majority of American states have passed laws regulating the labor of wage-earning women. Nearly a score of states provide for a maximum working day for

women, of eight or nine hours. Night work is prohibited in a few states. Many health regulations relating to working women are found upon our state statute books. Twelve states have passed laws fixing a minimum wage for women and children. Employers are not allowed, under penalty, to pay less than the minimum wage. This wage is usually determined by a wage board and is the amount considered necessary to maintain the health and efficiency of the worker; it is a "living wage." No minimum wage law has been passed in the United States for adult male workers.

Throughout the ages women and children have performed much hard labor. The dangers which our legislatures attempt to guard against are found in connection with the conditions of work in our factories, sweat-shops, offices, and stores, — routine, the long working day, insanitary conditions, speeding-up, etc. Child labor in modern routine industry is an economic mistake as well as undesirable from a humanitarian point of view. A child is not only entitled to childhood, but we are coming to see that child labor does not pay. It is an expensive and inefficient form of labor for the employer to hire; and it tends to make inefficient the next generation of adult workers. The child forced prematurely into routine industry is obliged to forego desirable schooling, and his stamina and vigor are reduced. The use of child labor in mill and mine is like "grinding the seed corn." The agitation against gainful child labor and in favor of better educational facilities for the youth, is an essential part of the program for the conservation of human resources.

It seems evident that women are to play a larger and larger rôle in the industrial world. An attempt to stem the tide and to force women out of the factory, office, and

store does not seem feasible or desirable; the problem is to improve working and living conditions so that the health and stamina of the wage-working women will not be impaired. The solution lies in humanizing industry. The woman wage earner is not an abnormal person. Idleness or the performance of useless or unnecessary work is undesirable in the case of women as well as of men. The work of women under good conditions will increase the productive capacity of the nation and will allow a further reduction of the working day, or an increase in the sum-total of necessities, comforts, and luxuries available for consumption, or both.

TOPICS FOR DISCUSSION

1. What are the chief provisions of your state law in regard to the work of women and children?
2. Of men?
3. Who is charged with the enforcement of these laws?
4. How many wageworkers in your city or town are employed eight hours per day? Nine hours? Twelve hours?

CHAPTER XVII

METHODS OF PAYING FOR LABOR

The wages actually paid an employee are, as has been indicated, the result of an individual or a collective bargain. The method of paying for labor is by no means a matter of indifference. Employers are eager to adopt a plan which will stimulate the worker to produce in an efficient manner; they wish a large output of good quality unaccompanied by unnecessary waste of materials or excessive wear and tear upon the machinery utilized. The employees desire to increase the wage rate; but they object to overdriving or "sweating." Under slavery practically the only incentive was fear; under the wage system, the desire for income, which enables the worker to get a living for himself and family, is the chief incentive for the great majority of wage-workers. Many different methods have been and are still used in paying for labor. In this chapter, five systems will be briefly presented, — time wage, piece wage, premium plans and scientific management, profit sharing, and coöperation. Coöperation is, strictly speaking, not a method of wage payment; it is, in reality, a scheme for social reform. The time and piece wage systems are the fundamental plans; other methods are merely modifications of one of these systems.

Time Wage. In the time wage plan, the base upon which payment is made is a unit of time, — one hour, one day, one week, one month. The employee receives the stipulated wage for each unit of time employed irrespective of his

output for that period. More efficient and less efficient employees may receive the same wage. Of course, if a worker habitually produces little, he will sooner or later be discharged. Under the time wage system, the tendency is for wages to be nearly uniform for all workers in a given factory performing a certain kind of work. There is little incentive for the fast and skillful man to quicken his pace and increase the amount or improve the quality of his output per day. The time wage plan is favored by many labor organizations. In case the material used is very expensive or the machinery employed is delicate and costly, employers usually favor the time wage system.

Piece Wage. Under this plan the workers are paid according to the quantity of work finished. If a man completes one hundred operations in a day, his wage may be, for example, three dollars, — three cents per operation. If he had completed only seventy-five operations his wage would have been reduced to two dollars and twenty-five cents per day. The wage received depends upon the output of the individual worker. The worker is furnished a very direct incentive for speeding up. As a consequence, quality is in danger of being sacrificed to speed under the piece work plan. Piece rates are based on the principle of strenuosity, not that of efficiency. The workers often refrain from speeding up because they fear the employer will cut the piece rate if they earn more than is the customary time wage for the same class of work. Piece workers, therefore, often deliberately restrict their output.

Premium Plans and Scientific Management. The difficulties connected with both time and piece wages have led employers to seek another form of wage payment. The premium plan is, generally speaking, a combination of

the time and piece wage. The worker as a rule receives his day wage irrespective of the amount turned out by him in a day; but, if his output exceeds a certain amount, he is given a premium or bonus in addition to his day wage. The greater the excess over the base, the larger the premium. As in the piece wage system, the worker is given a potent incentive to increase his output. The essential difference between the two systems is found in the method of fixing the rate. The piece rate wage is usually the result of a more or less intelligent guess. Under scientific management the premium rate is fixed after careful study of the amount which an efficient worker ought to turn out in a given working period. The employer then promises not to cut the rate unless some change is made in the methods employed. One of the functions of scientific management is to ascertain what is a fair day's work; and another is to determine the premium rate which will give the worker the incentive to do more.

Scientific management or efficiency engineering also aims to ascertain the most effective way of doing a given job whether it be shoveling coal, handling pig iron, laying bricks, or cutting steel in a lathe. Every operation from tying a necktie to building a Panama Canal may be done in an efficient or an inefficient manner. Scientific methods are those which enable the job to be done in the most effective way with the least possible waste of energy. Labor power is now a measurable quantity. Under this system the efficiency of a worker is measured as definitely as electrical energy or steam power may be ascertained. The adoption of scientific methods marks the end of rule-of-thumb processes and guesswork. Under scientific management unnecessary motions are eliminated, the proper sequence of operations is

ascertained, and the best routing of materials and of partially finished products is determined. Some of the gains made as the result of motion study and the application of scientific principles to such work as bricklaying or shoveling, are considerable. For example, it is reported that through the use of scientific management one company "cut its shop force from one hundred to seventy men, and at the same time increased its output three hundred per cent."

Organized labor has quite consistently opposed the introduction of scientific management. The workers fear that it only means some subtle and new-fangled scheme to overdrive them. They point to the fact that scientific management has been introduced by the employers without consultation with the workers affected; and that it is planned by experts hired, controlled, and compensated by the employers. In theory, scientific management will help the workers; in actual practice, in too many cases the workers have received very little or no beneficial results. The opposition of organized labor to scientific management would doubtless be removed in a large measure if the workers were given a voice in determining the methods to be employed.

Profit Sharing. Profit sharing supplements, but does not modify in any important manner, the ordinary methods of paying wages. The workers are paid time or piece wages, and at the end of a definite period of time, usually one year, a portion of the profits is divided among them. This dividend is a gift made by the employer. If profit sharing is undertaken by the employer as a business proposition instead of a matter of philanthropy, the end in view is greater output, less waste of material, less wear and tear upon machinery, and a more stable labor force. Under the ordinary wage

system, wages are fixed at a contractual amount; ordinary fluctuations in business activity do not affect the rate paid. But the profits to be divided under profit sharing are subject to all the vicissitudes of business, for profits depend upon the ability of the enterpriser, the conditions of the market, the efficiency of the factory organization as well as upon the efficiency of each and every individual worker. The wageworkers may put forth their best efforts as the result of a promise to share profits and yet, owing to bad management or adverse business conditions, receive no extra bonus at the end of the financial year. Under piece wages or the premium plan the amount of the bonus depends almost entirely upon the individual workman, and the extra amount earned is found in the next pay envelope instead of six or twelve months later. The incentive offered by profit sharing has not proved very potent in its effect upon individual workers.

Profit sharing has been tried in only a comparatively small number of American factories. In 1916, only sixty establishments in the United States were using some form of profit sharing; one third of this number had adopted it within three years; and only eight out of the total number adopted the plan before 1900. Only five of the sixty establishments employ over one thousand workers. Labor organizations oppose profit sharing. Labor leaders feel that a wage earner who is also a profit sharer will be less loyal to his union than one who receives only wages. Unionists demand higher wages rather than a share in the profits.

To members of a labor organization the strength of the union is of first importance; any plan of wage payment which is considered to be a menace to the solidarity of labor will meet the opposition of organized labor. Profit

sharing has been most successful in plants which are not subjected to fierce competition. A firm enjoying large monopoly profits can adopt profit sharing with excellent prospects of success.

"Working on shares" may be called a crude form of profit sharing. In farming and in fishing, working on shares is not uncommon. Welfare work also has some of the earmarks of profit sharing. Many employers in recent years have given much attention to improving working conditions in the factory, — better lighting, improved sanitation, shower baths, rest-rooms, gymnasiums, meals at cost served in an attractive dining room. Attention has also been directed toward the home environment of the workers. "Model houses" have been erected; these houses have been sold or rented to the workers at reasonable rates. Coöperative stores have been established; and night schools and kindergartens provided. Welfare work has taken on many different aspects. In brief, it is a movement fostered by employers looking toward better working and living conditions for wageworkers. Organized labor insists that welfare work must not be used as a substitute for higher wages. In short, they prefer more money in the pay envelope to shower baths and flower gardens in their work-places.

Coöperation. Cöoperation is a form of democracy in industry.[1] A factory operated under coöperative methods will be managed by the workers in that factory; the workers collectively constitute the enterpriser. To the workers, therefore, go both wages and profits. The workers select the superintendent, and determine the policy of the organiza-

[1] See also the section on Coöperation in the chapter on Forms of Business Organization.

tion. In the pure form of producers' coöperation each worker will have one vote, and all workers in the plant will be members of the coöperative association. The employer is eliminated; the workers literally employ themselves. They furnish or borrow the capital necessary to carry on the enterprise. Theoretically the system appeals to the lovers of equality; but, in actual practice, few attempts at producers' coöperation have been successful. The most notable example in the United States has been furnished by the flour-barrel coopers of Minneapolis.

The difficulties are many. In the first place, a manual worker rarely places sufficient emphasis upon managerial ability; and, hence, the managers chosen are poorly paid and are as a rule inefficient. In the second place, a successful coöperative establishment almost inevitably drifts toward the condition of a corporation. The original members wish to keep the profits for themselves. Soon they begin to hire workers, paying the latter ordinary wages instead of admitting them as coöperators. Presently coöperation in the establishment is a matter of history; and the plant is really operated by a partnership or by a corporation. It is also difficult for coöperating workmen to obtain sufficient capital efficiently to carry on many lines of business. In a complex industry in which many grades of workers skilled and unskilled are employed, the question of relative shares in the proceeds is a rock upon which the coöperative concern is likely to be shipwrecked. The unskilled object to allowing the skilled a much larger per capita percentage than the former receive; and the skilled emphasize the difference between the two grades of labor. The most successful examples of producers' coöperation are found in industries in which there is little gradation of labor, in which

the amount of capital required is small, and in which the work of the enterpriser is reduced to a minimum. The flour-barrel industry conforms fairly well to these requirements.

The more important form of coöperation is found among consumers rather than among producers. The coöperative store has proved successful in many cases, particularly in England. In a coöperative store, interest is paid upon the capital invested; the profits over and above expenses are divided among the purchasers, who are members of the coöperative association in proportion to the amount of their purchases. That is, the profits go to the coöperators instead of to an enterpriser. The clerks and the manager of the store are paid wages. To be a member of the association, a person must buy at least one share of the stock of the association. But, unlike a corporation, each member is allowed only one vote irrespective of the number of shares he may have purchased. Many coöperative enterprises have been started among farmers, — such as coöperative creameries and grain elevators, and coöperative associations for marketing fruit. The familiar building and loan associations are also forms of coöperative enterprises. Coöperation among consumers does not, of course, affect directly money wages; but, by reducing the purchase prices of consumable goods, consumers' coöperation tends to increase wages in terms of consumable goods, that is, real wages.

TOPICS FOR DISCUSSION

1. Do you know of any factories in your community in which time wages are paid?
2. Piece wages?
3. Some form of the premium plan used?
4. Are there any examples of profit sharing?
5. Of a factory operated under coöperative management?

CHAPTER XVIII

AGRICULTURAL ECONOMICS

Farming Is a Business. Agriculture is a basic industry. In a crisis a nation can dispense with many forms of human endeavor and many kinds of industry; but the farming business must go on. In the early history of the United States, farming was the chief occupation of the great majority of Americans. To-day, it is rivaled by manufacture, transportation, and mining. About one-third of all persons gainfully employed in 1910 were reported as engaged in agriculture; and the estimated value of all farm property was approximately one-fourth of the estimated wealth of the nation.

The farmer of to-day is truly a business man; he produces chiefly for sale — for a market. The pioneer farmer and his family on the other hand consumed nearly all that was produced upon the farm; little was sold and little purchased by the pioneer farmer. The frontier farm was almost a self-contained unit.

Peculiarities of the Business of Farming. Farming considered as a business or a means of getting a living has, however, several peculiarities which quite clearly distinguish it from all other industries. These peculiarities are less marked in the case of the modern marketing farmer than in the case of the pioneer. (1) The farmer comes into very close touch with nature. His work brings him daily into contact with the soil and vegetation; it does not oblige him to coöperate or work with other men to the extent that manufacturing, mining, and merchandising do. His busi-

ness does not require the careful cultivation of the social graces; he therefore often appears at a disadvantage in social and political gatherings. (2) The pioneer farmer has often been lauded as an independent man. He was in a large degree independent of social, political, and business considerations; but on the other hand he was peculiarly dependent upon weather conditions, and the danger of loss from pests of various kinds was ever present. The marketing farmer is almost as dependent upon political and business considerations as other business men. He is vitally interested in railway rates, banking laws, credit facilities, and the control of middlemen. And some farmers are becoming nearly as independent of weather conditions as the manufacturer, — for example, the farmer upon irrigated land and the market gardener who works under glass.

(3) Subdivision of labor has proceeded much further in manufacturing, transportation, mining, and mercantile pursuits than in agriculture Farming is relatively a small-scale industry; and small-scale industry offers slight opportunity for subdivision of labor. Farming is also a seasonal industry; the character of the work performed changes from season to season and from day to day. No two days have exactly the same routine; and an unexpected change in the weather will upset any carefully planned program of farm work. The farmer is even to-day a non-specialized worker. He must be able to plow, sow, cultivate, reap, repair implements and fences, milk cows, care for horses and stock, and perform a multitude of other duties. The efficient farmer is a versatile and ingenious man. He should not only understand the best methods of doing farm work; but he also must understand soils; he must study market conditions, he must know how to fight insect

pests, and he should be able to keep simple farm accounts. The efficient farmer of to-day is a worker and an enterpriser. The distinct separation between the capitalist, the enterpriser, and the worker which is characteristic of manufacture, mining, and transportation, is as yet rarely found in agriculture. The farmer works with his farm laborers, if indeed he hires such assistance.

(4) The farm family, like all families under more primitive industrial conditions, is united in an industrial way. Each member of the household contributes his bit to the farm business. In manufacture, mining, transportation, and nearly all other forms of business activity, the home life and household activity are sharply separated from business activity; and different members of the family are often engaged in quite different work. The rural family is a united working force, and all members work together for a common end; the urban family constitutes a divided working force. Unity in the essential endeavor to earn a living undoubtedly makes for family stability. The wife of the farmer is in reality his business partner; and the location of the farm definitely fixes the residence of the farmer. (5) Manufacture tends to produce the massing of population in industrial towns and cities; farming because of the large space required by each farm unit, causes the farming population to live in relative isolation. (6) The isolation of the farm and the small-scale form of the average farm unit, have made it difficult for farmers to coöperate with each other and to do teamwork in organizations for the benefit of the rural community. The farmer is hard to "socialize."

Agricultural Statistics. In the United States, according to the Census of 1910, there were 6,361,502 farms. The

average number of acres per farm was 138. The average value of all farm property per farm was $6444; of which, $4476 represented the value of the land. During the decade, 1900 to 1910, the value of the farm land per farm in the United States practically doubled; and the value of all farm property per farm increased about 80 per cent. This extraordinary increase in farm values was due in part to changes in the value of gold. The total value of farm property per farm in 1860 was slightly less than in 1900. The average number of acres per farm in 1860 was 199 and in 1900, 146.

Farm Tenancy. As a rule, a farm is more efficiently operated by the owner than by a tenant. Tenancy is particularly undesirable when the landowner lives at a considerable distance from the farm and when a tenant only remains on a farm for one or two years. Under such conditions, the rented farm is usually "skinned" or "mined"; the soil deteriorates and the buildings and fences decay. Fortunately, absentee landlordism has not as yet assumed alarming proportions in this country. In 1910, 63 per cent of the farms were operated by the owners; in 1900, the percentage was 64.7. Of the 37 per cent operated by tenants, three-fourths were owned by landlords living in the same county in which the farm was located. Tenancy is high in several Southern states on account of the large number of Negroes renting small farms. With some exceptions, the percentage of tenancy in the North is highest where land values are high, where the investment required of the owner is considerable.

Farm Labor. The farmer has a "labor problem." It is difficult for farmers to obtain an adequate supply of efficient workers; and from year to year they loudly bewail the

scarcity of farm laborers. The reasons for this situation are many. The demand for workers on the farm fluctuates greatly within a given year. The need for workers is most pressing in the fall during the harvesting season; in the winter, on the contrary, few extra helpers are required. The working day is long and, as a rule, indefinite. The opportunities for recreation and social enjoyment are few and inadequate. In many cases the housing accommodations are very poor, — often worse than in the case of factory workers.

In short, city employment with a higher money wage, a shorter working day, more regular hours, better opportunities for recreation and less of isolation, is the magnet which has drawn many of the best workers away from agriculture. There are perhaps 5,000,000 agricultural laborers. The typical member of this group, if located west of the Mississippi River, is a migratory or drifting worker. He works here to-day and elsewhere next week; and in the winter he drifts into the cities too often only to add to the amount of idleness and debauchery in those centers of population.

Rural Social Problems. Too many capable persons have been leaving agriculture for other occupations and opportunities. In the past, the rural districts have constituted the reservoir from which the cities have received their best leaders. To-day cities must very largely recruit their ranks from within; but it is still of prime importance that the quality of the rural population be maintained at a high level. The " rural exodus " has not, however, been entirely a movement from the farms to the cities. With the passing of recent decades certain small rural industries such as blacksmithing have very largely disappeared. The sons and

daughters of the village and crossroads blacksmith are now living in the city. Many farmers have moved farther west or to Canada. During the last two or three decades the strictly rural population living in the open country or in small villages under 2500 inhabitants, has been actually reduced in numbers in many of the older states. For example, out of a solid block of twenty-eight counties in Southeastern Michigan only one county increased in rural population from 1900 to 1910. The percentage of the entire population of the United States living in the rural district was, in 1860, 70.5; in 1890, 63.9; in 1900, 59.5; and in 1910, 53.7. It is true that many old-time jobs such as the making of tools and implements, the slaughtering of cattle and hogs, the manufacture of cheese and butter, have been transferred from the farm and the rural hamlet to the factory and the city; and it is also true that improved machinery and motive power enables the same amount of man-power to cultivate efficiently a greater acreage of ground; but in spite of these facts, students of rural conditions are of the opinion that more attention should be given to the problems of the farmer and of the rural community. Why are so many of the virile and ambitious young men and women turning their faces cityward?

No definite and entirely satisfactory answer can be given to this question; but a few hints may be offered. In the cities are found crowding, hustle, noise, allurement, excitement, opportunity for distinction and wealth. In the cities also are to be found good sanitation, playgrounds, well-organized schools, well-equipped churches, public libraries, social centers, and varied opportunities for amusement and recreation. Farmers rarely attain to great wealth, distinction, or political preferment. The best and the worst

sides of life seem to be found in our large population centers. To many persons the rural districts appear to offer only the chance for hard work, small income, mediocrity, and monotony. The lure of the farm may be strengthened by increasing the income of the farmer through greater individual efficiency and through the association of farmers in organizations which are not unlike labor organizations. Better rural schools, consolidated and more prosperous rural churches, opportunities for social gatherings and wholesome recreation, improvement of roads and of other means of transportation and communication, are also potent agents in adding to the attractiveness of rural life. Agriculture and the rural districts will attract and retain the leaders of this or any other generation only when the opportunities and enjoyment afforded compare favorably with those of other occupations and of urban life.

CHAPTER XIX

INSURANCE

What is Insurance? Insurance is a method of coöperation in the bearing of risks against such emergencies as fire, death, sickness, and a multitude of other misfortunes which are quite certain, within a given period, to come to a fairly definite number of persons belonging to a large group. That a certain percentage, for example, of 100,000 persons will die within a year can be predicted with a fair degree of accuracy; but which particular individuals will die is not ascertainable. Property may be insured against many kinds of risks such as of fire, tornadoes, floods, theft. The insured persons or the owners of insured property pay a small annual premium; and those of the total number insured, or their families, to whom comes the misfortune insured against, receive an indemnity which partially or wholly compensates for the loss sustained.

Insurance of property may be considered as an expense of doing business. A manufacturing plant insures its buildings and equipment against fire or a wind storm. A cargo of goods shipped by railway or by steamboat is usually insured. If the building burns or the cargo is lost, the owner is recompensed by the insurance company; and the former continues his business without the great financial strain and the danger of bankruptcy which would often follow in case no insurance were carried. On the other hand, life insurance may be considered to be a form of savings. In the case of the death of the breadwinner of a family, the widow and

the children will be assured an income or a lump sum of money from the insurance company. Banks usually insist that property offered as security for loans be insured. Acceptances based upon shipments of goods are readily discounted by banks if the shipments are insured.[1] Insurance plays a very important rôle in business affairs of to-day. The amount of the policies of American life insurance companies in force at the end of the year 1916 was over twenty-one billions of dollars.[2] In addition, much life insurance is carried by insurance fraternal orders. The life and property insurance companies have enormous sums of money invested in many kinds of financial securities. Each state has passed rigid laws regulating the management of insurance companies.

Social Insurance. Social insurance is a special form of insurance which is designed to protect wage earners from certain misfortunes to which they are especially exposed. The forms of insurance described above are purely voluntary; but social insurance is usually compulsory. The chief kinds of social insurance are: workingmen's compensation or insurance against industrial accidents, health (or sickness) insurance, insurance against invalidity and old age, and involuntary unemployment insurance. Until recent years Americans have urged that workingmen, by means of thrift, should individually prepare to meet these emergencies. But experience has conclusively proved that for the great mass of wageworkers, savings are inadequate to afford protection against the ordinary vicissitudes of life. Large numbers of families in the United States do not receive sufficient income to warrant any attempt to

[1] See Chapter X.

[2] Reported to the New York Insurance Department. Some American insurance companies do not report to the New York authorities.

save for old age or for the proverbial " rainy day." Without some form of social insurance, too many families in the wage-working group are forced because of accident, illness, or unemployment to accept public or private charity with its accompaniment of humiliation and loss of efficiency. Social insurance is the modern and humane method of making provisions for the ordinary misfortunes of the family receiving a small income.

Workingmen's Compensation. Insurance against industrial accidents is the only form of social insurance which as yet has found a foothold in the United States. The important European nations have preceded the American states in adopting systems of social insurance. The first fairly adequate American compensation law was passed in New York in 1910; this act was soon after declared unconstitutional. The first law to stand the legal tests was passed by the legislature of Massachusetts in 1911. By May, 1918, thirty-eight states and the federal government (for federal employees) had passed compensation acts; and these acts whether compulsory or optional are now held to be constitutional.

While these laws differ in details, the essential features are not greatly dissimilar. The expense of the system is paid by the employer; it, like the cost of fire insurance, is considered to be a regular expense of the business. An industry in which the hazards are considerable will be required to pay higher premiums or compensation than one which is less hazardous. An employer who neglects to guard his machinery will be forced to pay higher premiums for accident insurance than his competitor who installs safety appliances. A well-drawn compensation act makes " safety first " profitable; it lowers the expense of operation

by reducing the amount paid to workmen because of accidents.

The amount of the compensation paid because of the non-fatal injury of an employee is usually determined by paying during disability a percentage of the average wages earned by the worker. In the best laws the percentage is fixed at sixty-six and two-thirds. In the case of a fatal accident, the family receives a percentage of the weekly wage of the deceased. The exact percentage is determined by the number of dependents. The amount allowed each child should be paid until the child dies or reaches the age of eighteen years. The widow should receive compensation until death or re-marriage. In addition funeral benefits and medical care are usually provided for.

The system is placed under the control of a state commission which has power to settle disputes. Resort to the courts, except in rare cases, is avoided. The compensation system can be administered without great expense; and the amount of the payment is definite. Payments begin soon after the accident and continue regularly. The employer usually insures against accidents in a mutual or other insurance company or through the state insurance department. The premiums are paid to the insurance company; the compensation is paid by the insurance company to the injured worker or to his family as required by law. As a rule farm laborers, domestic servants, and casual laborers are exempted from the provisions of the compensation laws.

Health Insurance. The sickness of wage earners is a more important cause of interrupted wages than accidents. Practically all the leading industrial nations of Europe have adopted some form of health insurance; but in the United States (1919) health insurance has not been adopted by any

state. The American Association for Labor Legislation, which was instrumental in pushing the campaign for workingmen's compensation, has for several years carried on a campaign of education in regard to the merits of health insurance. A standard health insurance bill has been drawn up by this Association after much study and criticism. It seems probable that the chief features of this measure will be included in the state laws if such measures are passed in the near future.

This tentative measure provides for compulsory insurance against the sickness of all wageworkers whose earnings do not exceed one hundred dollars per month, except casual and home workers. The benefits, in case of the illness of the wage earner, are to consist of cash benefits, medical and nursing attendance, medicines and surgical supplies, etc. It is provided that the cash benefit shall be paid beginning with the fourth day of illness and continue during disability but not more than thirteen weeks in one case of sickness nor more than twenty-six weeks in any consecutive twelve months. The amount paid shall be not more than sixty-six and two-thirds per cent of the weekly wage of the insured worker.

The premiums for health insurance should be paid by contributions from the employer, the employee insured, and the state government. The act drawn up by the American Association for Labor Legislation provides that forty per cent of the total premium be paid by the employer, forty per cent be deducted from the wages of the insured, and the remaining twenty per cent paid out of the state treasury. The insurance may be carried by mutual or other insurance companies or by the state insurance department. The system should be controlled by a state commission.

The total expense of health insurance in all the states of the United States would be perhaps a billion dollars per year. Such a large expenditure can only be justified if it will reduce the amount of sickness and obviate the necessity for many families of workingmen to depend upon public or private charity in times of sickness. The student of social insurance must not overlook the incentives to fraud and malingering in order to receive the sickness benefits.

Old-Age Insurance. Social insurance for old age is in two forms: compulsory insurance and a pension system. Germany and France use the former system; England, Belgium, Denmark, New South Wales, Victoria, and New Zealand adhere to the pension system. In Germany, the imperial government contributed approximately twelve dollars per year toward each pension for old age or invalidity. The remainder of the expense is divided equally between employer and employee. Under the English law every worthy wage earner in poverty who has reached the age of seventy years is granted a small yearly pension. In Denmark, the age limit is sixty years. A large percentage of American wageworkers are in poverty and dependence after their sixty-fifth year; one authority in 1912 estimated the number to be one and one-fourth million. A pension which would give to each member of this group a meager income would relieve and prevent much suffering and humiliation; but the expense of the system would be considerable. An old-age insurance system with governmental aid seems preferable. More liberal amounts could be allowed as pensions, and thrift would be given greater encouragement than under a pension system like that of England.

Unemployment Insurance. One of the most serious misfortunes which the wageworkers confront is involuntary unemployment. Statistics show that even in times of prosperity many workers are involuntarily idle; and in periods of depression the percentage often becomes alarmingly great. Unemployment insurance is the most difficult form of social insurance to administer properly. It is easy, and to many alluring, to pretend to be unable to obtain a job. Obviously, any plan of unemployment insurance must be supplemented by excellent means of applying work tests to the person who asks for unemployment benefits. Before unemployment insurance can be adopted on a large scale a general and well-organized system of employment bureaus is undoubtedly essential. Such a system appears to be in the making in the United States.

Certain cities of continental Europe, notably Ghent in Belgium, have instituted optional systems of unemployment insurance for a limited number of workers. Great Britain is the only nation to establish a nation-wide compulsory system. This act was passed in 1911 and covers workers in seven different industries. The first step taken was the organization of an extensive system of employment bureaus covering all parts of the Kingdom. Equal contributions are made by employer and employee, and the government adds a subsidy. Insurance benefits may be paid for not more than fifteen weeks in any year. To receive unemployment benefits, the worker must be "employable" and he must be required to present himself at an employment bureau each day while receiving benefits; and he must of course accept a suitable job if offered to him. As incentives for the reduction of unemployment a refund of a portion of his contribution is made to an insured worker

who has had steady employment for a certain period, and a refund is also given an employer who has kept his employees continuously on the pay-roll for a year. As this initial attempt on a large scale to reduce the evil effects of unemployment was in effect only three years before the war opened, it is not possible to judge of the success of the system under normal conditions.

Provisions for Enlisted Man and Their Families. Soon after the United States entered the war a fairly comprehensive compensation and insurance measure was passed by Congress. This act was drawn after a careful investigation and displaces the old, unsystematic, and unscientific pension scheme of preceding years. War is recognized as an extra-hazardous industry, and as one which profoundly disturbs ordinary family relations and cuts off in the majority of cases the ordinary income of the family of the soldier or sailor. The law provides a governmental system which assures the family of the enlisted man a modest income while he is in the service of the nation or in case of his injury or death. The principles of social insurance are applied to the soldier and sailor by the federal government.

The chief features of the act may be presented under four headings: (*a*) Allotments and Allowances. All enlisted men are required to make allotments of pay for the benefit of wife and children. The monthly compulsory allotment shall not be more than half pay nor less than fifteen dollars. The government makes an allowance of fifteen dollars per month if there be a wife but no children; of twenty-five dollars if there be a wife and one child; of thirty-two dollars and fifty cents if there be a wife and two children. For each additional child an additional five dollars per month is allowed. If the family of an enlisted

man consists of a wife and two children, the compulsory allotment and the governmental allowance gives them a monthly income of $47.50. Provisions are also made for children in case the wife is dead and for other dependents.[1] (*b*) Compensation in Case of Death or Disability. In case of the death of an enlisted man, the government allows twenty-five dollars monthly compensation to the widow and additional allowances for minor children. The compensation of the widow continues until death or re-marriage, to the children until eighteen years of age or until married. Provisions are also made in case of total or partial disability of the soldier or sailor. (*c*) Voluntary Insurance. Life insurance companies demand extra war premiums of officers and enlisted men. The law, therefore, provides for voluntary governmental insurance at low rates against death or total disability. The amount of insurance may not be less than $1000 nor more than $10,000. (*d*) Vocational Training for Injured Men. The government is also to make provision for the training of disabled men for suitable trades or occupations.

TOPICS FOR DISCUSSION

1. What is the fire insurance rate in your town or city? Is it higher or lower than in other cities of approximately the same population?

2. Has your state a workingmen's compensation law? What are its chief features?

3. Has there been any agitation for health insurance in your state?

[1] Officers are not included under the provisions of this portion of the act.

CHAPTER XX

MARKETING

Inefficient Methods. The growth of cities, more intricate division of labor, and the increasing complexity of modern industry have stretched the distance from the producer to the consumer and have made possible the intervention of a chain of middlemen. And there are hundreds of thousands of workers in unnecessary occupations. Each one of these middlemen and unnecessary workers demands a profit; each is in business to make a living. Much more attention has been paid to the processes of primary production than to the process of marketing products. Especially in the marketing of food products, slipshod methods have reigned supreme. Food scarcity in certain localities is frequently accompanied by a food surplus in other districts. In recent years, more and more attention is being devoted to advertising and the art of salesmanship, but the prime object in view is the sale of the commodity, not the reduction of the expenses of getting the product from the producer to the ultimate consumer.

A study of the marketing of farm products made by the students of Harvard University in 1911 yielded results which are worthy of notice. Apples produced in Marlboro, Massachusetts, were sold by the producer for $2.25 per barrel; the consumer in Boston paid $7.50 per barrel. The difference between these two sums was divided as follows: picking, $0.25; barrel, $0.25; commission, $0.25; sorting, $0.15; labeling, carting, etc., $0.10; storage, $0.50; whole-

saler, $2.00; retailer, $1.50; freight, $0.25. Milk produced in Montgomery County, Pennsylvania, and sold for $3\frac{5}{8}$ cents per quart was retailed in Philadelphia for 8 cents. Of the difference, the retailer received 4 cents and the transportation company absorbed $\frac{3}{8}$ of one cent for freight. An investigation of the citrus fruit industry in California revealed the fact that one-third of the consumer's dollar goes to the retailer of the fruit, eight per cent to the jobber, and over twenty per cent for transportation and refrigeration.

These three, and a considerable number of other examples, show clearly that marketing costs of farm products amount to a large fraction of the total paid by the consumer. A newspaper account of the marketing of eggs in the vicinity of the city of Chicago in 1917 reveals a considerable string of middlemen, each, of course, insistent upon his profit. The eggs are usually sold by farmers to a collecting agent who drives about the country. The agent sells to a country shipper located in some town, who in turn sends the eggs to a large produce shipping company in the nearest city. The latter ships to a broker in Chicago, who may put them in cold storage. Later, the eggs are sold to a jobber; the jobber sells to the retailer, and the latter to the consumer. Six profits must be paid; breakage and decay, transportation and cold storage also take toll.

A food survey of Altoona, Pennsylvania, in 1915, showed that two-fifths of the food bill of that city of approximately 60,000 inhabitants was spent for transportation and retransportation, handling and rehandling, waste, jobbers' profits, and the like. Four-fifths of the city's perishable food came by rail, often long distances. As an inevitable consequence, the consumers were obliged to consume many "stale and therefore tasteless, unappetizing, and inedible

vegetables." This investigation also uncovered the following episode in the history of marketing in Altoona. A farmer hauled a barrel of apples to the station and shipped it by rail to Altoona. There, the barrel was placed on a dray and taken to a commission merchant. The latter purchased and forwarded it to Pittsburgh, — again drayage and shipment. In Pittsburgh, the barrel was again hauled to the store of a commission merchant, sold, and taken to the station in Pittsburgh. The barrel was again placed in a freight car and carried back to Altoona, hauled to the store of another commission merchant, sold and hauled to a retailer. The latter opened the barrel and sold the apples to his customers. "Four sales, six cartings, three railway journeys, all on one barrel of apples, — not very good apples either." This has aptly been called the "mob" method of marketing. By means of a scientific organization of marketing, much of Altoona's perishable food could doubtless be produced near the city and placed in the hands of consumers with little waste and without unnecessary transportation. Altoona's problem is that of the typical American city.

In 1911 it was estimated that there were 350,000 grocers in the United States; that is, about one grocer for every 260 persons or one for every 52 families. An investigation of the delivery of milk in a section of Rochester, New York, made in 1917, disclosed some interesting facts. In a small neighborhood, 57 dealers delivered milk to 363 homes, traveling an aggregate of 30 miles. The service could have been rendered by one distributor traveling two miles. A similar method of delivery obtained in other sections of that city, — and in many other cities in the United States. In New York City (1917) there were approximately 47,500 retail stores and markets, and one thousand small jobbers

selling to the stores and restaurants. Farther from the consumers are wholesale markets and commission merchants. And the latter buy of wholesalers who in turn buy of the producers and ship to New York City. Here is disclosed a great and costly chain of middlemen whose business it is to provide foodstuffs for the five or six millions of people living in the great metropolis. Unnecessary marketing expense tends to increase the price paid by the consumer and to lower the price received by the primary producer. The fundamental problem is: Can the chain be shortened and the expense of marketing and transporting reduced?

War conditions forced the American people to give more careful consideration to the important matter of food production and distribution. The war directed the attention to all forms of waste; it made "us all think food and talk food." As a consequence, more and more attention is being paid to marketing, and now with a view to reducing the expenses of marketing. It must not be forgotten, however, that the use of the telephone, advertising, the employment of the carton, and the greater emphasis upon cleanliness are all expenses which add to the total cost of marketing products; and the tendency toward specialization, the growth of cities, and the consequent separation of the consumer and the producer, all make inevitable the development of a multitude of middlemen.

The quite general use of the one-price system has also changed the mechanism of bargaining. The old, time-wasting methods of bluff and higgling are no longer used. The merchant fixes one price for all; the would-be purchaser must pay that price or go without the article unless, of course, some competitor will sell at a lower price. The original package and the money-back-if-dissatisfied method of sell-

ing goods tend to improve business morals. The responsibility for an imperfect or adulterated product can be easily traced. Deceit, adulteration of goods, and other dishonest business methods must now be discarded or be very carefully covered up; it is no longer profitable to be crudely dishonest.

Proposals for Betterment. Among the schemes utilized to bring the consumer and the producer closer to each other by eliminating certain links in the usual long chain between them, are the parcel post, municipal markets, and coöperative sales agencies. Many commercial houses have used the parcel post successfully; but the farmers have not as yet made extensive use of the parcel post in marketing their produce. Public markets are important factors in marketing farm produce in many eastern and some western cities. Coöperative methods have been successfully used in marketing grain, fruit, vegetables, and live stock. Coöperative buying has also been employed successfully by farmers and others. "A long line of commission men, produce merchants, jobbers, hucksters, retailers, and what not simply passing goods from hand to hand like a bucket brigade at a fire, is not only inefficient and wasteful, but very costly. In these days a hydrant and a line of hose are wanted." Public markets, the parcel post, and coöperative marketing are attempts at furnishing the hydrant and hose.

Advertising. Advertising draws attention to a new article and stimulates new wants, or it boosts the sale of one variety of article with a consequent reduction in the sales of another variety of the same article. Advertising is a marketing tool, and the expense of its use must ultimately be borne by the consumer or by the primary producer of the advertised article. Advertising is primarily a guide to the

consumer; but much of the advertising in the daily papers and the magazines is of the purely competitive type paid for by rival sellers of similar commodities. Consequently, a considerable percentage of commercial advertising is of the socially unnecessary and wasteful kind. Soon after the entrance of the United States into the war, the government began furnishing much information as to the desirability of certain goods, notably of food products. Such action on the part of public authorities reduces the social necessity for private advertising.

In recent years the art of advertising has been highly developed. Skillful advertisers and salesmen look to the weaknesses, the vanity, and the prejudices of possible purchasers. Salesmanship is becoming an art; and universities, colleges, night schools, and correspondence schools are offering courses of instruction in salesmanship. The consumers, in self-defense, need instruction in methods of resisting the skillfully prepared advertisement and the shrewd salesman.

TOPICS FOR DISCUSSION

1. How many grocery stores are there in your city? How many families per store?
2. How many meat markets? How many families per meat market?
3. How are groceries delivered in your city?
4. Is there a public market? If so, is it well located? Do many families purchase at the market?
5. Is there a coöperative store?

CHAPTER XXI

PUBLIC EXPENDITURES AND PUBLIC DEBTS

The Functions of Government. The government of a nation, like all other social institutions, changes as the years go by. The functions of the American government have changed as constitutions and laws have been modified, as judges have handed down new decisions as to the significance of existing laws and constitutions, and as new administrative methods come into vogue. A war inevitably brings with it marked changes in the governments of the nations involved. During the Middle Ages and until the latter part of the eighteenth century, the English government endeavored to restrain business activities; it granted monopoly privileges, attempted to fix wages and prices, and tried to determine the quality of goods bought and sold on the market. The American colonists resented the interference of the English government in colonial business affairs. Then followed an epoch in which the pendulum swung to the other extreme; and a very different theory of government was accepted. The function of government was conceived to be restricted to very narrow limits. The government was organized merely to protect persons and property from foreign enemies or internal disorders; it should not control or regulate in any way ordinary business affairs.

The American government was founded and our federal Constitution formulated when the non-interference theory of governmental functions was generally accepted by English-speaking people. It became the underlying principle of our constitutional and legal system. This theory caused

no considerable degree of injustice so long as industries were small-scale, and the United States was still a nation of pioneers. But as business became large-scale and economic class demarcations became clearer, some governmental regulations to curb special privilege and monopoly were urgently demanded. In recent decades, the functions of government have been rapidly increasing; and as a consequence the expenditures of government have risen to higher and higher levels.

Expenditures of Different Governmental Units. In this country, several different branches of government are authorized to spend money. The federal, state, municipal, and other local and school district authorities may provide for expenditures. In 1911, the expenditures of the federal government were somewhat more than $10 per capita; in the same year the State of Minnesota expended for state purposes nearly $8 per capita. In 1910, the per capita expenditures of the State of New York were also nearly $8; but the City of New York expended almost $33 for each man, woman, and child living in the city. The amount expended per capita by our states and cities varies greatly; it has been estimated that before the opening of the Great War in 1914, from $150 to $175 were expended by the various governmental units for each and every family residing in the United States. This amount was a considerable fraction of the average family income, — perhaps one-tenth to one-eighth. According to estimates made by Professor King of the University of Wisconsin, the per capita cost of government in the United States was multiplied nearly seven times in the sixty years from 1850 to 1910. During the same time the average income of each individual was only quadrupled. The expenditures for governmental purposes are increasing much faster than the average income

of the American citizen; a larger and larger portion of our total income is expended by the government and a decreasing fraction by individuals.

The expenditures of American cities have been increasing with great, almost alarming, rapidity. The reason is not difficult to ascertain. The paving of streets, increased fire and police protection, better schools, measures for protection against disease, recreation facilities, and a multitude of other items go to swell the total. For the last decade and a half the expenditures of the state governments, which had not been growing rapidly before that time, have also been increasing at a rapid pace. State aid in building good roads, the extension of government by commissions and boards, the increasing aid to education, and larger expenditures for charitable and penal institutions and institutions for defectives, are in no small degree responsible for the increase in state expenditures. The expenditures of the federal government have also increased with rapid strides. In 1913, the federal government spent about one billion dollars; this sum is more than the estimated expenditures of all governmental units — national, state, local, and school — in 1890. With the opening of the war in 1914 and the speeding up of our preparations for war, the expenditures of the federal government became still larger. The federal expenditures for the first fiscal year after the entrance of the United States into the struggle (July 1, 1917, to June 30, 1918), amounted to over twelve billions of dollars, of which approximately four and three-fourths billions were loaned to the Allies. The actual expenditures of our federal government were, therefore, approximately seven and one-half billions of dollars. From January 31 to May 15, 1918, the average daily expenditures were about $39,000,000.

The average daily expenditure of the British Government for the last fiscal year preceding the opening of the war with Germany was two and three-fourths millions of dollars; before the second year of the war was over, the daily average expenditure was twenty-five millions of dollars. And later the daily expenditures reached much higher levels.

Analysis of Expenditures. It is interesting and instructive to examine the larger items of expenditure of a city, a state, and the federal government. New York, the largest American city, spends nearly two hundred millions of dollars annually. In 1913, the appropriations made were in round numbers $190,400,000; the actual expenditures may have differed slightly from this total. In the table following, the total appropriations are divided into ten divisions; and the percentage of the whole assigned to each division is given.

	Per Cent
Administration and Legislation	1.92
Education	19.80
Protection of Life and Property	16.37
Streets, Bridges, Docks, and Ferries	4.35
Recreation, Science, and Art	1.86
Debt Service (Redemption and Interest)	28.87
Judicial Service	4.65
Health and Sanitation	9.44
Correctional and Charitable Purposes	5.27
Miscellaneous (Rents, Elections, Public Buildings, Printing, Pensions)	7.47

An analysis by an accountant, Harvey S. Chase, of the "estimates" of the expenditures of the federal government for the fiscal year ending June 30, 1915, is perhaps the best for our present purpose. Mr. Chase divides the expenditures into five classes: (1) War Functions, — army, navy, interest on war debts, war pensions, etc.; (2) Peace Func-

tions, — the promotion of agriculture, public health, and education, the regulation of the currency and banking, administrative costs of the Departments of State, Interior, Agriculture, Commerce, and Labor, care of Indians, and a large group of other items; (3) Postal Service; (4) General Governmental Functions, — legislative, executive, judicial, etc.; (5) Local Governmental Functions, — territorial governments, Philippine Islands, District of Columbia, etc. The percentage of the total expenditures assigned to each of these five groups is approximately as follows: —

	Per Cent
War Functions	44.2
Peace Functions	18.1
Postal Service	29.5
General Governmental Functions	6.7
Local Governmental Functions	1.5
	100.00

Preparedness and actual participation in war have greatly enlarged the fraction assigned to war functions, and, of course, greatly increased the total.

The Minnesota Tax Commission made a careful analysis of the expenditures of that state for the year 1911. The table on the following page presents the results of that analysis. Good roads may in the future be expected to absorb an appreciable percentage of the total expenditures of our states.

Since our governmental expenditures are so large and absorb a considerable fraction of the total income of the men and women of the nation, it is highly important that waste, inefficiency, and graft be reduced to a minimum. Each and every citizen is vitally interested in the matter of efficient governmental service. The tax gatherers reach down into each and every pocketbook.

	Per Cent
Administration (all departments)	13.47
Courts	2.44
Legislature	2.81
Education	47.29
Care of the Insane	9.31
Correctional Institutions	6.06
Other State Institutions	1.77
Militia	1.03
Debt and Interest	9.14
Miscellaneous	6.68
	100.00

Public Debts. Public debts are incurred chiefly because of extraordinary expenditures on account of war, or for the building of public works, such as canals, municipal plants, improved roads, and public buildings. From time to time, small debts are incurred to make up deficits in the public revenues. In the United States, the national debt is very largely the result of war expenditures; but the state and local debts are due mainly to expenditures for public works. In recent years the debts of the local governmental units, particularly of municipalities, have increased very rapidly. In 1870 the total debt of our local governmental units was $516,000,000; in 1902, $1,630,000,000; and in 1913, $3,476,000,000. The per capita debt of these minor divisions increased from $20.74 in 1902 to $38.81 in 1913. The debt of New York City in 1912 was as large as our national debt at that time. The debts of the states are comparatively small, but have been increasing since 1890.

The debt of the federal government was large after the close of the Civil War. In 1870, it totaled $2,331,000,000; but by 1890 it was reduced to $852,000,000. The Spanish-American War, the increase in our navy, and the building of the Panama Canal, caused a comparatively slight increase.

This increase was, however, less than the increase in population. The national debt per capita was $60.46 in 1870 and $10.59 in 1913.

The opening of the Great War in 1914 has caused enormous increases in the national debt of all belligerent countries. In the first year and a half of war, England's debt rose from approximately $3,500,000,000 to $11,155,000,000. By the end of 1916, it was estimated that the national debt of the five chief belligerents had been increased by $49,455,000,000. The national debt of all the countries of the world was estimated to be only $36,548,000,000 in 1908. The debt of the federal government of the United States in 1913 was approximately one billion of dollars; but the total amount borrowed during the first fiscal year of war was about eight billions of dollars, of which a little more than one-half was loaned to the Allies.

TOPICS FOR DISCUSSION

1. Get a statement of the expenditures and receipts of your town, county, and state. Compare them with the figures given in this chapter.
2. What is the amount of the debt owed by your city? Your county? Your state?
3. What was the amount of the expenditures of the federal government for the last fiscal year?
4. What is the amount of the debt of the federal government?

CHAPTER XXII

TAXATION

Governmental Income. Having considered the expenditures of our government, it is now necessary to study the other side of the problem, — that of the income of the different governmental units. An individual attempts to square his expenditures with his income; but, as a rule, public officials decide first upon the expenditures to be allowed in a given year and then proceed to put into effect such tax measures as will yield the required amount. It should also be noted that, except as the government carries on business enterprises, the income of the public treasury is a secondary or derivative income; the public purse is replenished by taking a portion of the income of the nation's citizens. There is no "magic fund" out of which a government may pay its running expenses.

The Budget System. In England, the Chancellor of the Exchequer presents annually to Parliament the estimates of the needs of the different departments of the government. He also presents a statement of the changes which should be made in the taxing system to meet the expenditures provided for in the estimates. This statement of estimated expenditure and receipts is called the budget. In our federal government, no budget system worthy of the name has as yet been developed. Estimates of necessary expenditures made by the different departments of government are presented to Congress by the Secretary of the Treasury. Some of the estimates are referred to one

committee and certain ones go to other committees. These committees working independently report in due time to the House. The matter of taxation is taken up by another committee, the Ways and Means Committee; and this also reports to the House. A similar process is followed in the Senate. There is little systematic and scientific study of the budget. As a consequence, the expenditures of the federal government may one year be greater than the revenues, and another year be much less. The lack of unified consideration of income and outgo is not, however, wholly to blame for the situation. Our tariff duties, which in the past have been the source of about one half of the federal revenue, have been determined primarily for the purpose of protecting American industries. Revenue has been an incidental matter. This policy has greatly increased the difficulties of forecasting the probable financial fruitfulness of a tariff measure.

In the majority of the state legislatures appropriations are handled in much the same manner as in Congress. In our cities, the budget making is carried on in a more systematic manner. The mayor is made responsible in some cities for the presentation of the budget. In New York City, it is made by a board of estimates and apportionment of which the Mayor is a member. In cities under the city-manager plan of government it is the duty of the manager to present the budget.

Definition. The major portion of the income of our local, state, and federal governments is derived from taxation. A tax may be defined as a compulsory contribution levied by the government to be used for public purposes or for common benefits. Some other less important sources of governmental income are special assessments, fees, fines,

sale of public land, operation of public industries, loans, and gifts.

Tariffs. Our federal government derives its income chiefly from three taxes: customs or tariff duties, internal revenue taxes or excises, and income taxes. A tariff duty is levied upon goods imported into this country from some foreign country. The duty is paid to governmental officials at the port of entry. Many of American tariff duties are protective; the duties are levied upon the importation of certain kinds of goods which are produced here as well as imported. Protective duties reduce the amount of the protected article imported, and give American manufacturers a better opportunity to produce the article protected in competition with foreign manufacturers A tariff for revenue only would be levied only upon articles not produced in this country. Tea is not produced in the United States; and a tariff duty placed upon tea would not be protective. On the other hand, a tariff on steel rails would be protective.

A tariff duty tends to raise the price of the article taxed. Consequently, with some exceptions, the consumer pays a part or all of the duty by paying the higher price. In case of a protected article, the consumer as a rule not only pays more for the imported article, but a higher price may be exacted for the portion of the supply produced in this country. In other words, protected manufacturers are able to raise the prices of their products because the tariff makes foreign competition somewhat difficult. Competition between American manufacturers may, however, force a reduction in price, — unless a trust or combination is formed. A very high protective tariff will tend to stop the importation of the article protected and to stimulate home

manufacture of the article. Little revenue will, therefore, be obtained. A tariff for revenue only may yield large returns.

Many arguments are advanced in favor of and against the use of a protective tariff system. These cannot be considered in detail in an elementary textbook on economics. It may be pointed out, however, that protective tariffs tend to diversify industries within a nation; and in time of war or danger of war it is highly essential that a nation be prepared to produce a large portion of its war supplies. The student should also notice that a protective tariff may lower the productive efficiency of a nation by obliging the workers of that nation to produce articles which can more easily be produced elsewhere. If, for example, the United States has excellent opportunities to produce iron and steel products and possesses fewer advantages in the production of sugar, it would be desirable from an economic point of view, political, war, and private considerations aside, to exchange iron and steel products of home manufacture for sugar produced abroad. The people of the United States, and of the other nation as well, might have more of both articles than they would have if a protective tariff on sugar made importation of sugar difficult, and caused certain American workingmen to be used in producing sugar instead of iron and steel products.

Internal Revenue. An internal revenue tax or excise is a tax levied upon the production of certain articles or upon the performance of certain functions. For over a half century the United States has levied an internal revenue tax upon the manufacture and sale of liquors and tobacco. In 1916 and 1917 new internal revenue taxes were also levied upon many other articles and services. The internal revenue

tax is sometimes used to stop the production of certain products rather than to provide income for the government. A few years ago, Congress placed an excise duty upon the production of matches tipped with phosphorus. This tax was sufficiently high to prevent further manufacture of this kind of match. It was cheaper to produce matches tipped with other and non-poisonous material than to make the phosphorus match and pay the tax. Congress took this action because the manufacture of matches tipped with phosphorus often caused a very loathsome and dangerous disease among the workers in the match factories. The tariff can be used to stimulate certain kinds of manufacture; and the internal revenue tax can be utilized to stamp out obnoxious or undesirable methods of manufacture.

The Federal Income Tax. The income tax now levied by the federal government is a complex graduated or progressive tax. The rate is higher when the levy is made upon large incomes than when it falls upon small incomes. In 1918 two income tax laws were in force, — the ordinary tax passed in 1916 and the war tax imposed in 1917.[1] Both laws provide for progressive rates and for the exemption of small incomes. The head of a family pays under the war tax a two per cent tax on the excess in his income over $2000 (plus $200 for each dependent child); under the ordinary tax, he pays two per cent on the excess over $4000. These are called the normal tax rates. In the case of other persons, the exemptions are $1000 and $3000 respectively. Additional taxes or sur-taxes are levied on incomes above $5000. For example, upon an income between $5000 and $7500 a sur-tax of one per cent is levied on the amount above $5000; on incomes between $40,000 and $60,000 a sur-tax

[1] Modified somewhat in 1919.

of twelve per cent is levied; and on incomes in excess of $2,000,000 a sur-tax of sixty-three per cent is levied on the amount in excess of $2,000,000. An income of $2,200,000 would pay the normal taxes on the entire amount minus the exemptions and a number of sur-taxes ranging from one per cent on $2500 to sixty-three per cent on $200,000. Corporations pay a tax of six per cent upon their net income; and dividends received by individual stockholders are not subject to the normal tax under the income tax laws outlined above. The income tax is theoretically a good tax and the system will probably be retained as a permanent part of the federal taxing machinery.

In addition to tariff duties, internal revenue duties, and income taxes, the federal government levies an excess profits tax and an inheritance tax known as the federal estates tax. The excess profits tax is imposed upon profits in excess of those received during the period immediately preceding the war or in excess of what is considered to be a reasonable rate of profits. Corporations, partnerships, and individuals are subject to the tax. It is an attempt to turn war profits into the federal treasury. The federal estates tax is levied upon the transfer of estates at the death of the owners. This tax is in addition to any inheritance tax which may be levied by a state government.

State and Local Taxation. The various state governments derive nearly all of their income from inheritance taxes, corporation taxes, license taxes, and the general property tax. No two states have exactly the same system. The cities, townships, counties, and other forms of local government utilize chiefly the general property tax. Many improvements in cities are paid for by special assessments.

The inheritance tax is used by about three-fourths of the

American states; but except in a few of the states, the amount received from this tax is small. The usual form of the state inheritance tax provides for lower rates and higher exemptions for direct than for collateral heirs, and the rates are progressive, that is, the larger the inheritance, the higher the rate of taxation. The federal estates tax is levied upon the estate; the state inheritance taxes are levied upon the inheritance. A state tax would be less if the estate were divided among ten heirs than in case it was inherited by one heir. The inheritance tax is a good tax; it is easily collected, is difficult of evasion, and does not impose a heavy burden upon the taxpayer.

The Corporation and License Taxes. The corporation tax takes many forms. It is levied only upon businesses organized as corporations. A license tax is a payment required for the privilege of carrying on a certain kind of business or for doing a particular act. Many states required a saloon keeper to take out a license. The Southern states use the license system extensively; and many businesses are required to pay a license tax. Automobile owners are required in all states to pay a license tax each year. A license tax is often levied not only for the purpose of raising revenue but also for the purpose of regulation. Regulation is usually the chief motive in obliging the automobile owner to take out a license.

The General Property Tax and Special Assessments. The general property tax is the chief source of revenue of our townships, municipalities, and counties. It is also used by many of our states. This tax may be divided into two parts: a tax on real estate and a tax on personal property. The real estate tax is levied on land and the improvements thereon according to their value as determined by assessors.

The personal property tax is levied upon miscellaneous forms of property, such as household furniture, live stock, tools and implements, stocks, bonds, mortgages, and the like. The personal property tax is not and probably cannot be fairly assessed and collected. Stocks, bonds, and mortgages can easily be concealed. This tax is condemned by many authorities on taxation. It should be discontinued.

Certain tax reformers also advocate reducing the tax on improvements below that assessed on land of equal value. Such a step, it is urged, would stimulate building. Under the present general property tax laws, after a man builds a new house or other building the taxing officials immediately begin to penalize him for improving his premises. Certain Canadian cities exempt improvements from taxation; and Pittsburgh and Scranton, Pennsylvania, tax improvements at a lower rate than land. A few states also levy an income tax.

A special assessment is used by cities to defray the cost of some public improvement such as a pavement. It is levied once for all; it does not recur year after year, as does a tax. The special assessment is levied upon the property on both sides of the street, which is benefited by the laying of the pavement.

Justice in Taxation. Many theories of taxation have been advanced; but the most commonly accepted are the benefit and the ability-to-pay theories. According to the benefit theory, justice in taxation is attained when taxes are apportioned according to benefits received from governmental activities. Special assessments are levied in harmony with the benefit theory. That taxes should be paid in proportion to the ability of the taxpayer to pay is the theory quite generally accepted by the American people. But what

measures the ability to pay? Is it measured by property, by income, or by some other criterion? If it be measured by property or income, does the ability increase as rapidly or more or less rapidly than the increase in property or income? Should the rate be the same on an income of $1000 per year as on one of $500,000 per year? Or, should the rate be progressive? To answer that the rate should be progressive seems logical and fair; but complications arise when an attempt is made to determine what the exact increase in the rate should be. Our income and inheritance taxes are almost invariably progressive; but the general property tax is not. The tariff and internal revenue duties are as a rule the reverse of progressive; these taxes fall in proportion to income more heavily upon the poor than the well-to-do. Tariff and internal revenue duties are regressive; and are theoretically unjust forms of taxation. But both are easily and cheaply collected and the taxpayer does not " feel " the tax as he would one paid in a lump sum once a year to a tax collector.

TOPICS FOR DISCUSSION

1. How does your town or city raise its revenues? What is the city tax rate?
2. How does your county raise its revenues? What is the county tax rate?
3. How does your school district raise its revenues? What is the school tax rate?
4. How much is the state automobile license tax?
5. Do you favor removing the general property tax from improvements in cities? Why?

CHAPTER XXIII

INDUSTRIAL UNREST

Contentment has been pictured as a mild form of decay or degeneracy. Progress and advancement are likely to go out of the door when one becomes entirely contented with his lot in life. A desire to better one's condition and position is commendable. Nevertheless, dissatisfaction may be carried so far as to bring about undesirable and dangerous conditions of unrest. It is well when the working people of this country are eager to improve their living and working conditions; but it is not well when they become extremely dissatisfied and discontented. When industrial unrest becomes extreme, the wise economists and statesmen will waste little energy in denouncing the wage earners; they will diligently seek for the underlying causes. Not until these are disclosed can the difficulties be cleared away. Industrial unrest manifests itself in strikes, lockouts, boycotts, agitation, sabotage, and inefficient work. In 1912, industrial unrest in this country was deemed by Congress to be so evident that a Commission on Industrial Relations was appointed to investigate labor conditions and make a report. This Commission was composed of nine persons, — three representing the employers; three, the employees; and three, the general public. The Commission made a careful study of the situation. It held hearings before which different types of persons were called; and it employed a corps of competent investigators. Its final Report was made in 1915.

Causes of Industrial Unrest. While the Commission, as might have been expected, did not entirely agree as to the causes of unrest, four causes were emphasized: the unjust distribution of wealth and income; unemployment and the denial of an opportunity to earn a living; the denial of justice in the creation, the adjudication and the administration of the law; and the denial of the right to form effective labor organizations. These four causes of unrest are so fundamental that a brief consideration of each may help the student to understand our important and pressing labor problems.

Distribution of Wealth. The great inequality in the distribution of wealth in this country is undoubtedly one of the basic causes of industrial unrest. The wageworkers are convinced that the pecuniary rewards for human effort are very unfairly apportioned.[1] Too many, declare the spokesmen of organized labor, work hard, regularly and intelligently for a wage which will scarcely enable them to support a family; others do not work and yet receive fabulous incomes. Such a situation, in a democratic country favored with free public schools and manhood suffrage, is quite certain to result in vigorous protests and in the initiation of reform or revolutionary movements.

Unemployment. Even in the most prosperous times, a considerable percentage of men and women who desire to work and who are able to do so, are unable to obtain work. In hard times, in a time of crisis, the number of the unemployed becomes distressingly large; bread lines and soup kitchens become common in the large cities. The regular seasonal fluctuations in demand for workers is not small. Employers hire and discharge without giving much con-

[1] See Chapter VII.

sideration to the plight of the discharged worker. Only in recent years are employers beginning to realize that a large labor "turn-over" is expensive. It costs perhaps $30 to $100 to break in a new man; and our migratory labor problem is in part a consequence of the thoughtless and short-sighted policies of employers in the treatment of their labor force.

The business of buying and selling labor power has been carried out in a fashion which is antiquated in the business of buying and selling almost any important commodity, — shoes, cloth, or grain, for example. The pack-peddler method of tramping from shop to shop looking for a job is still used in many places. "Boy wanted" signs are often seen; but no one would think of putting out a "pair of shoes wanted" sign. Shoes are sold in well-established shoe markets, in shoe stores. Public employment bureaus — labor stores — are beginning to offer fairly adequate market facilities for certain forms of labor; and large employers of labor are developing employment departments which deal intelligently with the problem of hiring men. The arbitrary and frequent discharge of workers is also being discredited.

The primitive man or the pioneer farmer did not face the danger of unemployment. The pioneer was not obliged to seek an employer in order to get permission to work and to earn a living for himself and family. But the great mass of workers to-day cannot get access to an opportunity to earn a living except by finding an employer. Free land has disappeared; the worker must work for wages and for an employer. Deny him this opportunity and he is denied the right to earn a living. Involuntary unemployment under modern conditions is a potent and inevitable cause of unrest.

The Denial of Justice. The testimony taken before the Commission clearly indicated that the workingmen of the nation possess a deep-seated conviction that they are not given fair treatment in regard to the passage of laws beneficial to them as a class or in the interpretation and administration of such laws after passage. The investigations of the Commission also disclosed the fact that the laboring men were not without plausible reasons for such an attitude. The history of labor legislation points clearly to the conclusion that it is less difficult to obtain the passage of laws protecting property than laws protecting human life and preventing overwork. The long history of child-labor legislation discloses a multitude of obstacles in the way of passing adequate child labor laws; it offers eloquent testimony as to the accuracy of this conclusion.

In the second place, the working class of the nation is also convinced that the judges of our courts are more closely in touch and in sympathy with the employers and the capitalists than with the employees. It is charged that after labor laws are passed the courts too often either nullify them because of technicalities which would not be raised in regard to legislation favorable to the business interests of the nation, or declare them unconstitutional because of reactionary interpretations of the federal Constitution. The situation has led many working people to distrust the government and especially the courts of the nation. It is one of the most important causes of industrial unrest in the United States.

Denial of the Right to Join Labor Organizations. Large corporations are great combinations of capital. A labor organization is a corresponding combination of wageworkers. The working people insist that united or collective action on their part is necessary in order to secure fair wages and

fair treatment from organized capital. But many large business firms have firmly and persistently used their influence to destroy organizations among their employees or to prevent movements having for their motive the organization of the company's employees. Such employers refuse to deal with their employees collectively, that is, through union representatives, and insist that bargains be made only with individual workingmen. The workers believe that such treatment is unfair and inimical to their best interests; and it is doubtless true that organization is an essential weapon in the hands of workingmen struggling upward toward better working and living conditions.

There are many other causes of industrial unrest in this country; but the four which have been briefly considered are certainly among the most important. As long as great inequalities in wealth and income exist, so long will unemployment and irregularity of employment persist, so long will the workers feel that they are unfairly treated in regard to the passage, administration, and adjudication of laws, so long will hostile employers and employers' associations continue to deny their employees the right to join labor organizations, and so long will the nation be harassed by strikes, boycotts, and other tokens of industrial unrest. The most dangerous forms of industrial unrest may be found among the migratory and homeless workers of the West. These men live an abnormal life; and they miss the incentives furnished by the home and by other permanent relationships of various kinds which make for good citizenship and contentment.

The members of labor organizations are, like other men, selfish; and they are as a rule shortsighted individuals. The great majority of these workers are interested in im-

mediate benefits rather than in bigger plans of social betterment which cannot, of necessity, be realized in the near future. As soon as wageworkers get an increase in wages or a shorter working day, plans are laid for further increases in wages and for a still shorter working day. "The beautiful doctrine of more" is often preached by labor leaders.

CHAPTER XXIV

SOCIAL AND INDUSTRIAL BETTERMENT

Plans for Betterment. For ages men and women have dreamed of human betterment; many have been the builders of Utopias. In recent decades, a variety of schemes for improving living and working conditions and for eliminating poverty and distress, ranging from the conservative to the extremely radical, have been presented. Of these only the most prominent will be herein outlined. The organized wageworkers hope to improve conditions for the workers through union action in the industrial and political field. In recent years, certain wide-awake employers have reached the conclusion that the efficiency of their business activities depends in a large degree upon the living and working conditions surrounding their employees. Consequently, employers are improving the sanitary conditions, lighting, and ventilation in their stores and factories and providing excellent toilet facilities and opportunities for rest and recreation. This is commonly called welfare work. The remainder of this chapter will be devoted to a brief consideration of certain other programs of social and industrial betterment.

The Single Tax. The single-tax advocates propose to eliminate poverty by the adoption of one measure. The orthodox single-taxer demands that the government take as revenue all of the rent of land, and that no other form of tax be levied. Under the single tax none of the forms of taxation discussed in the chapter on taxation would be

utilized except that part of the general property tax which is levied on land, not on improvements or personal property. The income of all forms of government, federal, state, and local, would be an amount equal to the rent of land. The selling value of land, not including improvements, would fall to zero; the improvements would have value and be bought and sold much the same as at the present time. But landowners could no longer afford to hold desirable land out of use for the purposes of land speculation. According to the theory of the single tax, monopoly profits and all great inequalities in wealth and income arise out of the private receipt of land rents. If all men were placed on an equality in regard to access to land, if every one who uses land were obliged to pay the entire rental return from that land as a tax, then, according to the advocates of this reform measure, each person would be treated fairly and great inequalities in opportunity would vanish. The single-taxer desires to continue competition, not to destroy it. Henry George was the great American advocate of the single tax.

An increasing number of persons, including hard-headed business men, are willing to go some distance in the direction of the single-tax goal. This group is in favor of the reduction of taxation on improvements and personal property, and of a corresponding increase in the tax on land. Land rent is a kind of overhead charge which all businesses are obliged to pay to landowners. An increase in the tax on land would not increase land rent. If it led to a reduction in the tax on capital and industry, such reduction would be a gain for the enterpriser and would correspondingly lower the expenses of carrying on a business.

Socialism. The socialists maintain that the private receipt of rent, interest, and profits constitutes an injustice

to the great mass of unprivileged workers. The present industrial order, called by socialists the capitalist system, enables a comparatively few individuals to exploit the many. Under socialism, all large-scale industries and all monopolies are to be owned and operated by the government. Socialists point out that competition is wasteful, and that governmental operation would eliminate competition. These enthusiasts for radical social reform declare that competition leads to combination and large-scale industry, and that when an industry becomes large-scale it is ripe for social control and operation. According to the socialists, society will presently outgrow private capitalism as it has slavery and serfdom. Nevertheless, under socialism it is assumed that private ownership of many forms of wealth and of small businesses would be continued. The socialists hold high a fine ideal of economic justice and of equality of opportunity; and they insist upon a democratic form of government.

National Guilds. The national guild movement has gained considerable prominence in England. The national guildsmen favor governmental ownership of industry, but wish to place the control of a particular industry in the hands of the workers — unskilled, skilled, and administrative — in that industry. The workers would practically become partners in a business controlled by the government. It differs from socialism in that the management of industry would be decentralized. The workers, not their official governmental representatives, would direct the management of an industry. Under the national guild system, our post-office would be managed by the post-office employees. The relations between different industries would be determined by some representative body like our Congress. In Eng-

land under war conditions, the government took control of certain industries and virtually made employers agents operating the business for definite returns. Producing for profits was actually supplanted by producing for use. This is not a national guild system, but it bears some of the marks of that plan.

Anarchism and Syndicalism. The anarchist wishes to put an end to all coercive governmental power; he would eliminate organized government. The syndicalist likewise repudiates the political state. He would place the control of industry in the hands of the workers in each industry; but, unlike the national guildsmen, would make no provision for national control over the various industries and for their proper coördination. The Industrial Workers of the World in the United States represent one form of syndicalism. The syndicalist would overthrow the present industrial order by strikes, sabotage, or, if necessary, by more violent means. The syndicalists are not in favor of making agreements with employers, and they are opposed to such labor organizations as those included in the American Federation of Labor.

The Program of the Sociologists. The social workers and the sociologists are convinced that no one single-track plan will bring about a Utopia among men, and that no great and sweeping changes in human institutions come suddenly and without preparation. Social and industrial betterment are believed to be the results of evolution rather than of revolution. They are of the opinion that as there is law and order in the realm of physics and chemistry, so cause and effect may be studied in the political and social life of human beings. Sociology attempts to develop the science and art of human betterment; it is concerned with human relation-

ships. A systematic program for industrial and social betterment would include plans (*a*) to eliminate great inequalities of wealth and to usher in an approximation to equality of opportunity; (*b*) to reduce the waste of human life through sickness, premature death, and accident; (*c*) to increase the national and world output of desirable commodities and services; (*d*) to improve educational facilities; (*e*) to provide for wholesome recreation and increased leisure. These plans, it will be noted, are somewhat interrelated and interdependent.

The sociologist insists that the startling contrast between the prodigious income of certain privileged classes, received because of monopoly or speculative gains, and the hopeless and grinding poverty of the masses, must become a matter of history before definite and certain progress toward a high level of human achievement and happiness may be anticipated. Approximate equality of opportunity, it is confidently believed, is essential to progress in a democratic nation. With these ends in view, it is proposed (1) to reduce the size of incomes received from speculation and monopoly power. This may be accomplished by stringent regulation of trusts and monopolies. (2) The second part of the program is to use the taxing power to take considerable portions of large incomes for governmental purposes. The plan provides for highly progressive income and inheritance taxes, and for the taxation of excess profits; for an increase in the taxation of land rents and of monopoly and speculative gains. Or, in essence, it is proposed to tax lightly incomes which are "earned," and to tax heavily incomes which may be called "unearned" or "findings." Of course, much difficulty may be confronted in reaching a generally satisfactory definition of "earned."

The waste of human life from illness and accidents is appalling. An almost incredible number of lives are snuffed out before the first birthday; and a large percentage die before maturity. Many who survive and reach maturity are stunted in body and mind, untrained, inefficient, ineffective, diseased, dissipated, and vice-ridden. Furthermore, the number of defectives is increasing. Society is wasting far too much of its human as well as of its natural resources. Unless the death rate is lowered and the amount of sickness reduced, social betterment cannot be looked for with any degree of expectancy. The nation may instead face the unwelcome specter of social degeneracy. Poor health among the great mass of people increases inefficiency, crime, and poverty. Poor health in turn is due in no small measure to bad, insufficient, and improperly selected food, to insanitary housing conditions, to lack of proper recreation, and to bad habits. Poverty often leads to sickness; and sickness is on the other hand a potent cause of poverty. The death rate is much higher in the tenement districts of a city than in the better residence sections. A positive health program would include improvement in housing conditions; pure water, milk, and food supplies; clean streets and alleys; better factory conditions; improvement in curative and especially in preventive medical science; health insurance; and education in regard to food values and proper diet.

Social betterment is conditioned not merely on greater equality in the distribution of the products of industry but also on greatly increasing the output of desirable products. Better health will improve the efficiency of individuals. Scientific management and psychological research have proved that the great majority of individuals are far from attaining their maximum of efficiency in either manual or

mental work. The average student does not know how to study or how to use effectively his brain power; and the average manual worker is inefficient as an individual laborer and too often he is not properly coördinated with others to do good teamwork. A positive program to increase the efficiency of the man-power of the nation would include reduction of sickness and accidents, the application of scientific methods in regard to the training and work of individuals and of groups of individuals, better educational facilities, the elimination of gainful child labor, and the reduction of idleness and unemployment. All normal adults should be efficient workers. The program would also include the economical utilization and conservation of the natural resources of the nation and of the world.

The complexity and interdependence of modern life, to which attention has been directed, makes necessary universal and compulsory training of the youth. Education inside and outside the school system should place before the incoming generation the experience and ideals of preceding generations; its purpose is to make the new generation "the heir of the ages." Education should aid in developing strong and healthy bodies and alert mental powers; it should be a potent factor in directing and controlling the desires and passions of the youth; it should help to create an interest in art, literature, and social welfare; and it should give specific instruction in a trade or profession which will enable the student to become a skillful, useful, and self-reliant worker.

Work is not an end in itself; it is a means to an end. Social betterment will result in more of leisure, recreation, and enjoyment for the masses. The use of machinery and natural power and the adoption of a positive pro-

gram for increasing the efficiency of all workers, will offer a larger and larger opportunity for leisure. Shorter working days, Saturday half-holidays, and a summer vacation are some of the fruits which seem at the present time feasible, — although the war has tended to delay progress in this direction. In turn, a minimum of leisure and recreation are essential to efficiency. Furthermore, play, games, and amusements of the proper kind and well supervised, are tremendous forces in building up good character and physical stamina.

The World War is teaching conclusively the value of internationalism and of a world alliance. Any worth-while program for social betterment will be not merely local, national, or class in its scope; it will be a world and humanity program. It will transcend the limits of nations, of classes, and of races; it will look to the brotherhood of man.

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